

IOWA FINANCE AUTHORITY

Financial Statements

June 30, 2003 and 2002

IOWA FINANCE AUTHORITY

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Independent Auditors' Report

The Board
Iowa Finance Authority:

We have audited the accompanying financial statements of each major fund of the Iowa Finance Authority (the Authority), a component unit of the State of Iowa, as of and for the years ended June 30, 2003 and 2002, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Iowa Finance Authority as of June 30, 2003 and 2002, and the respective changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 21 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

October 10, 2003



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IOWA FINANCE AUTHORITY
Management Discussion and Analysis
Fiscal Years 2003 and 2002

This section of the Iowa Finance Authority's (the Authority) annual Financial Statements presents management's discussion and analysis of the financial position and results of operations for the fiscal years ended June 30, 2003 (FY03) and 2002 (FY02). This information is being presented to provide additional information regarding the activities of the Authority, pursuant to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures* (Statements Nos. 34, 37, and 38). This discussion and analysis should be read in conjunction with the Independent Auditor's Report of KPMG LLP, the Financial Statements, and the accompanying notes.

Financial Highlights

- Authority assets increased 19.1% (\$209.8 million) to \$1,305.6 million compared to a June 30, 2002 amount of \$1,095.9 million.
- Authority FY03 revenue increased 19.7% (\$20.2 million) over FY02 to finish the year at \$123 million compared to \$102.8 million for FY02.
- The Authority closed three single family bond issues and purchased \$127.1 million in mortgage-backed securities under the FirstHome Program during FY03. During FY02, the Authority closed four single family bond issues and purchased \$129.8 million in securities under the First Home Program.
- Title Guaranty Division generated highest level of revenues in its history.

Overview of the Financial Statements

The Financial Statements consist of management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets, Statements of Cash Flows, and a Notes to Financial Statements section. Each of the basic financial statements describes information for the following groups of major funds:

- General Fund
- Single Family Bond Program Funds
- Multi-Family Bond Program Funds
- Housing Assistance Program Funds
- Clean Water Program Funds
- Drinking Water Program Funds
- Title Guaranty Division Program Fund

While the various funds of the Authority are grouped together for convenience, the combined assets are available only in accordance with the applicable bond resolutions, federal and Iowa laws, and other outstanding agreements.

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The Statements of Net Assets are presented in a format that displays net assets (assets less liabilities equal net assets). The Statements of Net Assets detail the assets and liabilities of the Authority based on their liquidity, utilizing current (maturing within twelve months) and non-current (maturing in more than twelve months) categories. The resulting net assets in these statements are displayed as either restricted or unrestricted. Under Statements Nos. 34, 37, and 38, assets are restricted when their use is subject to external restrictions (such as bond resolutions, legal agreements, statutes, etc.), with assets not falling under this category being characterized as unrestricted. Please note, however, that unrestricted net assets include assets that have been committed by the Authority for certain specific uses, but for which an agreement may not yet be in place.

The Statements of Revenues, Expenses and Changes in Net Assets present the operating income (loss), which consists of operating revenues less operating expenses. In addition, the Statements of Revenues, Expenses and Changes in Net Assets detail non-operating revenues (assets received by the Authority from the Iowa Housing Corporation). Finally, these statements report net interfund transfers. The resulting amounts (revenues less expenses plus or minus net interfund transfers) are the change in net assets for FY03 and FY02, which amounts are then added to the ending balance of net assets from FY02 and FY01 to arrive at net assets for FY03 and FY02.

The Statements of Cash Flows report the net increase (or decrease) in cash and cash equivalents (highly liquid investments with a maturity of three months or less when purchased) for each fiscal year. These statements include cash flows from operating activities, cash flows from non-capital financing activities (such as issuance of bonds), and cash flows from investing activities. The resulting net increase (or decrease) in cash and cash equivalents is then added to the balance of cash and cash equivalents at the beginning of the year to determine the FY03 and FY02 ending cash and cash equivalents balances.

Condensed Financial Information

The following Tables present condensed financial information for FY03 and FY02 for the Authority as a whole, as well as for the Single Family Bond Program Funds, the Clean Water Program Funds and the Drinking Water Program Funds. Each Table includes Net Assets and Revenues, Expenses and Changes in Net Assets information. Following the Tables are charts detailing the composition of the Authority's assets at the end of FY03 and FY02.

Table 1 provides information, on a condensed basis, with respect to all of the funds of the Authority. Table 2 presents condensed financial information concerning the Authority's Single Family Bond Programs. Table 2 includes the Authority's single family whole loan program (which is no longer used to fund new loans) and the mortgage-backed securities program (the FirstHome Program – the current Authority program for funding affordable loans to low- and moderate-income Iowans). Finally, Table 3 provides condensed financial information on the Clean Water Program Funds while Table 4 provides condensed financial information on the Drinking Water Program Funds.

This information has been included to assist readers in comparing the Authority's financial condition and results of operations for FY03 with FY02. Reference is made to the Authority's complete audited Financial Statements for both FY03 and FY02 for detailed information behind the amounts set forth in these tables.

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Management Discussion and Analysis
Fiscal Years 2003 and 2002

Table 1- Total Condensed Information of the Authority

Net Assets

June 30, 2003 and 2002
(in millions of dollars)

	2003	2002
Assets:		
Cash and cash equivalents	\$ 164.5	147.8
Investments	432.0	344.7
Mortgage-backed securities	377.6	306.7
Mortgage loans receivable and other loans, net	29.7	27.2
Loans to municipalities or water systems	291.7	259.5
Other assets	10.1	9.9
Total assets	<u>1,305.6</u>	<u>1,095.8</u>
Liabilities:		
Bonds payable, net	783.5	647.1
Accrued interest payable	16.8	16.0
Accounts payable and other	2.8	4.1
Reserve for Title Guaranty Division losses	3.7	3.3
Rebates owed	9.0	9.4
Deferred fees	5.8	5.5
Deferred grants and aid	0.7	0.6
Total liabilities	<u>822.3</u>	<u>686.0</u>
Total net assets	<u>\$ 483.3</u>	<u>409.8</u>

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Management Discussion and Analysis
Fiscal Years 2003 and 2002

Table 1- Total Condensed Information of the Authority, Continued

Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2003 and 2002
(in millions of dollars)

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Interest on investments and bank deposits	\$ 17.2	21.0
Net increase in fair value of investments	1.2	1.5
Interest on mortgage-backed securities	20.5	16.3
Net increase in fair value of mortgage-backed securities	12.9	5.1
Interest on mortgage and other loans	12.2	12.1
Federal grants	49.2	37.5
Title guaranty fees, net	5.7	5.2
HUD fees	2.3	2.3
Other income and fees	1.8	1.8
Total operating revenues	<u>123.0</u>	<u>102.8</u>
Operating expenses:		
Interest on bonds	36.1	33.3
Loss on bond redemption	—	1.1
General and administrative	9.0	7.6
Provision for losses	0.8	0.3
Grants and aid	3.8	4.0
Total operating expenses	<u>49.7</u>	<u>46.3</u>
Operating income	73.3	56.5
Nonoperating revenues	<u>0.2</u>	<u>5.0</u>
Change in net assets	73.5	61.5
Net assets at beginning of year	<u>409.8</u>	<u>348.3</u>
Net assets at end of year	\$ <u><u>483.3</u></u>	<u><u>409.8</u></u>

IOWA FINANCE AUTHORITY
Management Discussion and Analysis
Fiscal Years 2003 and 2002

Table 2 – Condensed Single Family Information

Single Family Bond Program Funds

Net Assets

June 30, 2003 and 2002
(in millions of dollars)

	<u>2003</u>	<u>2002</u>
Assets:		
Cash and cash equivalents	\$ 9.1	6.5
Investments	173.8	127.8
Mortgage-backed securities	376.3	304.7
Mortgage loans receivable, net	8.4	12.7
Other assets	<u>2.6</u>	<u>2.6</u>
Total assets	<u>570.2</u>	<u>454.3</u>
Liabilities:		
Bonds payable, net	488.2	390.7
Accrued interest payable	10.8	9.3
Accounts payable and other	0.2	0.2
Rebates owed	5.0	5.0
Deferred loan fees	<u>1.5</u>	<u>2.0</u>
Total liabilities	<u>505.7</u>	<u>407.2</u>
Total restricted net assets	<u>\$ 64.5</u>	<u>47.1</u>

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Table 2 – Condensed Single Family Information, Continued

Single Family Bond Program Funds		
Revenues, Expenses, and Changes in Net Assets		
Years ended June 30, 2003 and 2002		
<i>(in millions of dollars)</i>		
	<u>2003</u>	<u>2002</u>
Operating revenues:		
Interest on investments and bank deposits	\$ 4.2	5.0
Interest on mortgage-backed securities	20.8	16.1
Net increase in fair value of mortgage-backed securities	12.9	5.1
Interest on mortgage loans	0.8	1.2
Other income and fees	0.4	0.5
	<u>39.1</u>	<u>27.9</u>
Total operating revenues		
Operating expenses:		
Interest on bonds	22.3	19.4
General and administrative	0.2	0.1
Authority fees	0.8	0.3
	<u>23.3</u>	<u>19.8</u>
Total operating expenses		
Operating income	15.8	8.1
Interfund transfers, net	1.6	2.6
Change in net assets	17.4	10.7
Restricted net assets at beginning of year	47.1	36.4
Restricted net assets at end of year	\$ <u>64.5</u>	<u>47.1</u>

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Table 3 – Condensed Clean Water Program Funds Information

Clean Water Program Funds

Net Assets

June 30, 2003 and 2002
(in millions of dollars)

	2003	2002
Assets:		
Cash and cash equivalents	\$ 111.2	108.8
Investments	86.3	95.8
Loans to municipalities or water systems	224.6	215.8
Other assets	2.4	3.3
Total assets	<u>424.5</u>	<u>423.7</u>
Liabilities:		
Bonds payable, net	163.3	175.2
Accrued interest payable	3.5	4.7
Accounts payable and other	0.4	0.4
Rebates owed	2.5	3.2
Deferred loan fees	2.4	2.2
Total liabilities	<u>172.1</u>	<u>185.7</u>
Total restricted net assets	<u>\$ 252.4</u>	<u>238.0</u>

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Table 3 – Condensed Clean Water Program Funds Information, Continued

Clean Water Program Funds		
Revenues, Expenses, and Changes in Net Assets		
Years ended June 30, 2003 and 2002		
<i>(In millions of dollars)</i>		
	<u>2003</u>	<u>2002</u>
Operating revenues:		
Interest on investments and bank deposits	\$ 5.4	8.6
Interest on loans	9.1	9.1
Federal grants	26.2	15.7
Other income and fees	0.4	0.3
	<u>41.1</u>	<u>33.7</u>
Total operating revenues		
Operating expenses:		
Interest on bonds	8.6	9.9
Loss on redemption	—	1.1
General and administrative	1.3	1.0
	<u>9.9</u>	<u>12.0</u>
Total operating expenses		
Operating income	31.2	21.7
Interfund transfers, net	<u>(16.8)</u>	
Change in net assets	14.4	21.7
Restricted net assets at beginning of year	<u>238.0</u>	<u>216.3</u>
Restricted net assets at end of year	<u>\$ 252.4</u>	<u>238.0</u>

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Management Discussion and Analysis
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Table 4 – Condensed Drinking Water Program Funds Information

Drinking Water Program Funds

Net Assets

June 30, 2003 and 2002
(in millions of dollars)

	<u>2003</u>	<u>2002</u>
Assets:		
Cash and cash equivalents	\$ 26.9	7.4
Investments	94.6	47.4
Loans to municipalities or water systems	67.1	43.7
Other assets	2.3	1.6
Total assets	<u>190.9</u>	<u>100.1</u>
Liabilities:		
Bonds payable, net	108.7	57.8
Accrued interest payable	2.1	1.6
Accounts payable and other	0.2	0.3
Rebates owed	1.5	1.2
Deferred loan fees	1.0	0.6
Total liabilities	<u>113.5</u>	<u>61.5</u>
Total restricted net assets	<u>\$ 77.5</u>	<u>38.6</u>

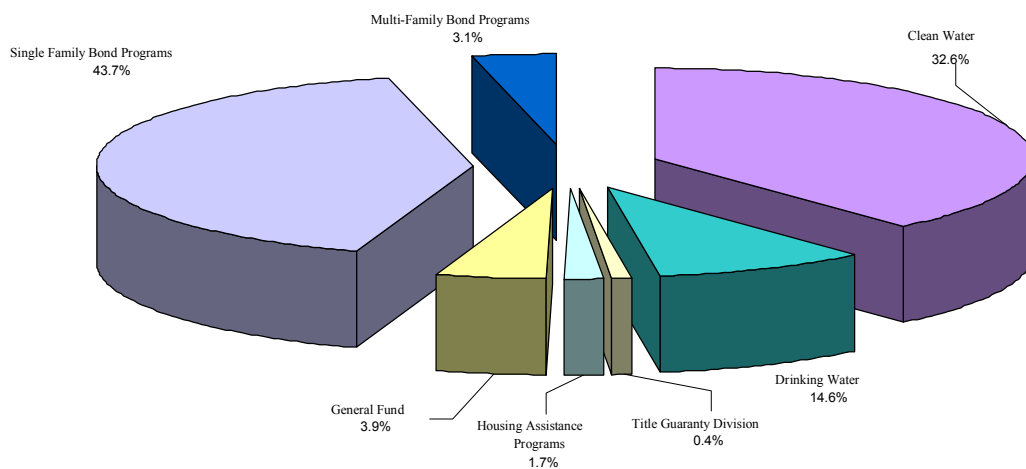
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Table 4 – Condensed Drinking Water Program Funds Information, Continued

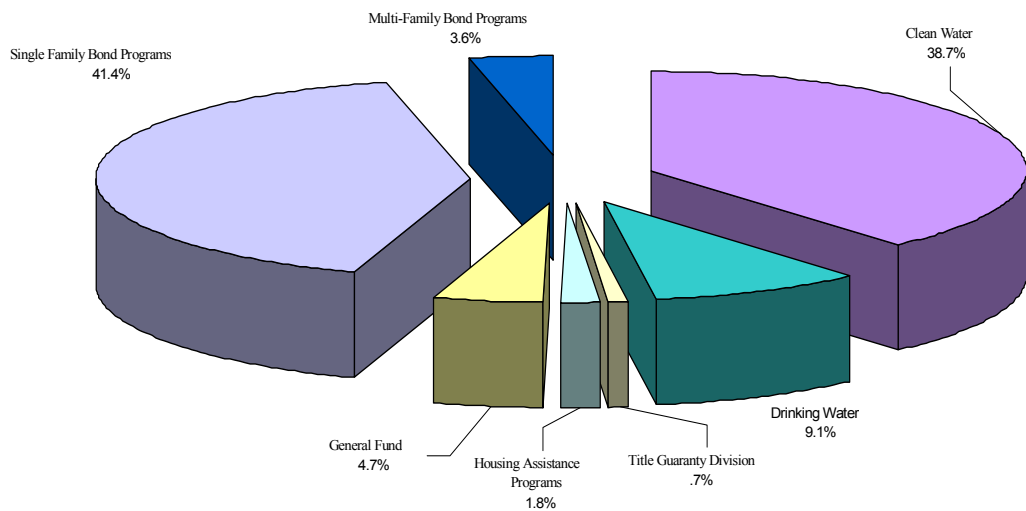
Drinking Water Program Funds		
Revenues, Expenses, and Changes in Net Assets		
Years ended June 30, 2003 and 2002		
<i>(In millions of dollars)</i>		
	<u>2003</u>	<u>2002</u>
Operating revenues:		
Interest on investments and bank deposits	\$ 2.6	2.0
Interest on loans	1.7	1.1
Federal grants	22.1	20.7
Other income and fees	0.2	0.1
Total operating revenues	<u>26.6</u>	<u>23.9</u>
Operating expenses:		
Interest on bonds	3.8	2.4
General and administrative	0.7	0.6
Total operating expenses	<u>4.5</u>	<u>3.0</u>
Operating income	22.1	20.9
Interfund transfers, net	<u>16.8</u>	
Change in net assets	38.9	20.9
Restricted net assets at beginning of year	<u>38.6</u>	17.7
Restricted net assets at end of year	<u>\$ 77.5</u>	<u>38.6</u>

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Total IFA Assets as of June 30, 2003
(\$1,305.6 million)



Total IFA Assets as of June 30, 2002
(\$1,095.9 million)



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Management Discussion and Analysis
Fiscal Years 2003 and 2002

Financial Analysis of the Authority

Overview

Total Assets. Total assets ended the fiscal year at \$1,305,665,343, an increase of 19.1% (\$209.8 million) compared to the June 30, 2002 amount of \$1,095,861,241. Increases in Single Family Bond Program Funds assets (\$115.9 million) and the Drinking Water Program Funds assets (\$90.9 million) accounted for a majority of the increase in total assets. These increases, as well as expanded detail for each group of major funds, are discussed in more detail below.

Total Liabilities. The Authority's total liabilities increased 19.9% (\$136.3 million) compared to the ending FY02 balance of \$686 million to end FY03 at \$822.3 million. The Single Family Bond Program Funds accounted for \$98.5 million of the net increase in total liabilities, while liabilities under the Drinking Water Program Funds made up \$52 million of the net increase. Liabilities under both the Multi-Family Bond Program Funds and the Clean Water Program Funds decreased, with Clean Water Program Funds' total liabilities down by \$13.6 million, and Multi-Family Bond Program Funds liabilities down \$1.8 million.

Net Assets. Net Assets of the Authority climbed 17.9% (\$73.5 million) during FY03 to \$483.3 million from an ending FY02 balance of \$409.8 million. The Clean Water Program Funds comprised \$14.5 million of this increase, the Drinking Water Program Funds comprised \$38.9 million, with the Single Family Bond Program Funds contributing \$17.4 million and the Multi-Family Bond Program Funds contributing \$3 million. As discussed below, \$14 million of the increase in net assets was a result of an increase in the fair market value of Authority investments and mortgage-backed securities, while the increase under the Clean Water Program Funds and the Drinking Water Program Funds was largely due to receipt of federal grants during FY03.

Total Operating Revenues. The Authority's total operating revenues increased 19.7% (\$20.2 million) during FY03 to end the year at \$123 million as compared to the FY02 year end balance of \$102.8. The largest component of this increase came from the Single Family Bond Program Funds (\$11.2 million), the Clean Water Program Funds (\$7.4 million) and the Drinking Water Program Funds, where total revenues increased by \$2.7 million.

Total Operating Expenses. The Authority's total operating expenses for FY03 were 7.2% (\$3.4 million) higher than the expenses incurred in FY02 of \$46.3 million, ending FY03 at \$49.7 million. Almost half of the Authority's expenses can be found in the Single Family Bond Program Funds with \$23.3 million or 46.8% of the total amount. The Clean Water Program Funds (\$9.9 million) and the Drinking Water Program Funds (\$4.5 million) account for 19.8% and 9.1%, respectively, of the Authority's expenses.

Operating Income. FY03 operating income amounted to \$73.3 million, a 29.9% (\$16.8 million) increase compared to the operating income of \$56.5 million for FY02. Of this \$73.3 million in total operating income, \$14 million was a result of the change in fair market valuations of the Authority's investments and mortgage-backed securities, as required by Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB No. 31). The Clean Water Program Funds and the Drinking Water Program Funds comprised \$31.2 million and \$22.1 million, respectively, of the Authority's FY03 total operating income. As will be discussed,

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much of the increase in income under the Clean Water Program Funds and the Drinking Water Program Funds was a result of federal capitalization grants received from the U.S. Environmental Protection Agency during the fiscal year.

Detailed Analysis

Note 1 to the Financial Statements contains a detailed description of each of the groups of funds listed below.

General Fund

As of June 30, 2003, the General Fund held assets totaling approximately \$51.4 million compared to approximately \$51.2 million for the fiscal year ending June 30, 2002. Of this amount, \$15.5 million was categorized as current assets, with the balance (\$35.9 million) consisting of noncurrent assets. Of the current assets, \$5.4 million is cash and cash equivalents, with \$8.3 million held in investments. For the noncurrent assets, investments comprise \$33.2 million and \$1.1 million is held in mortgage-backed securities. In addition, mortgage loans receivable (\$.7 million) increased significantly over FY02, due to additional loans being made under the Iowa Main Street Loan Program.

Assets in the General Fund increased \$0.3 million (0.6%) in FY03 as compared to an increase of 0.4 million (0.74%) in FY02.

Liabilities in the General Fund ended FY03 at \$2.7 million, with \$1.9 million of this falling in the current category and the remaining \$.8 million falling in the noncurrent category. In comparison, General Fund liabilities ended FY02 at \$1.2 million, with \$.6 million in the current category and the remaining \$.6 million classified as noncurrent. FY03 liabilities includes approximately \$.6 million in former Iowa Housing Corporation monies which is being held to be used for construction loans for a Multi Family Preservation project.

Net assets of the General Fund, as of June 30, 2003, amounted to \$48.7 million, a decrease of 2.4% over the ending FY02 balance of \$49.9 million.

Operating revenues of the General Fund during FY03 and FY02 totaled \$4.7 million and \$6.3 million, respectively, with \$1.7 million and \$3.0 million coming, respectively, from interest income. The other major component of General Fund revenues is the fee income of \$2.2 million and \$2.1 million received, respectively, by the Authority as Contract Administrator for HUD's Project-Based Section 8 Program. General Fund operating revenues for FY03 declined 24.8% (\$1.5 million) as compared to FY02, due mainly to the lower interest rate environment for investing funds and the change in the fair value of investments and mortgage-backed securities being \$.8 million less than FY02.

General Fund operating expenses for FY03 totaled \$4.5 million as compared to \$4.2 million for FY02. The general and administrative expense component for FY03 increased \$.7 million from the FY02 balance. The Authority Fees received from the Single Family Bond Program Funds and the Multi-Family Bond Program Funds (\$.8 million) as an offset against overhead expenses accounted for in the General Fund.

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Due primarily to earning lower rates on investments and modestly higher operating expenses, the resulting operating income of the General Fund amounted to \$0.1 million for FY03, as compared to \$2 million for FY02. Of General Fund moneys, \$1.4 million, net was transferred to other funds of the Authority during FY03, including \$2.3 million to the Housing Assistance Program Funds for the purpose of funding loans and grants. These items resulted in a \$1.2 million decrease in General Fund net assets for the fiscal year ending June 30, 2003.

Single Family Bond Program Funds

Total assets held under the Single Family Bond Program Funds for FY03 and FY02 amounted to \$570.2 million and \$454.3 million, respectively, with \$161.0 million and \$71.3 million, respectively, of those amounts classified as current assets, and the balance (\$409.2 million and \$383 million, respectively) classified as noncurrent assets category. For FY03, investments comprise the largest portion of the current assets (\$142.2 million), and primarily consist of bond proceeds that are being held in investment agreements pending their use to purchase mortgage-backed securities. With respect to the noncurrent assets, investments account for \$31.6 million, with the majority of noncurrent assets consisting of mortgage-backed securities (\$370.5 million).

As compared to FY02, total Single Family Bond Program Funds' assets for FY03 increased by 26% (\$115.9 million) as compared to an increase of \$112.9 million for FY02. This increase was largely a result of growth in the Authority's FirstHome Program. Under the Authority's current first-time homebuyer program, bond proceeds are used to purchase mortgage-backed securities, which consist of pools of individual mortgage loans to qualified borrowers who have utilized the FirstHome Program. During FY03, the Authority purchased \$127.1 million in mortgage-backed securities (backed by a like amount of single family mortgage loans). This \$127.1 million increase was offset by loan repayments during FY03 of \$72.4 million. In addition, there was an increase of \$12.9 million in the fair value of the mortgage-backed securities.

Total liabilities were \$505.7 million for FY03 compared to \$407.2 million for FY02, with the majority consisting of bonds payable (\$488.2 million and \$390.7 million, respectively). A net increase in bonds payable for FY03 (\$97.5 million) drove a 24% increase in total liabilities over FY02.

Net assets ended FY03 at \$64.5 million, which represents a 37% increase over the ending FY02 balance of \$47.1 million.

Operating revenues under the Single Family Bond Program Funds amounted to \$39.1 million for FY03 compared to \$27.9 million for FY02 with the major source of revenue being interest income from mortgage-backed securities (\$20.8 million and \$16.1 million, respectively). In addition, \$12.9 million of FY03 operating revenues was due to an increase in the fair market value of the mortgage-backed securities. As compared to FY02, operating revenues increased significantly, posting a 40% increase. For FY03, income from investments decreased by 16% from FY02, while income from mortgage-backed securities increased nearly 29%.

Single Family Bond Program Funds' operating expenses totaled \$23.3 million for FY03 and \$19.8 million for FY02, with nearly the entire amount being interest on bonds (\$22.3 million and \$19.4 million, respectively). Total operating expenses increased 18% over FY02 levels, with interest on bonds accounting for most of the increase. In addition, during FY02 the Authority began accounting for the allowed

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Authority Fees (\$0.8 million for FY03) as an expense of the Single Family Bond Program Funds and as an offsetting deduction of expenses in the General Fund.

FY03 operating income for the Single Family Bond Program Funds was \$15.8 million compared to \$8.1 million for FY02, which was an increase of 95% (\$7.7 million).

Transfers into the Single Family Bond Program Funds occurred during FY03 in the net amount of \$1.6 million as compared to a total amount of \$2.6 million for FY02. An amount of \$3.1 million came from surplus Title Guaranty moneys held in the Housing Program Fund under the Housing Assistance Program Funds and was used to cover costs of issuance and negative arbitrage on the single family bonds issued by the Authority. During FY03, \$1.1 million was transferred to the General Fund as a result of the closing of capitalized interest and cost of issuance accounts. Another \$.4 million was transferred to the General Fund from closing the Single Family 1985 bond issue as the remaining bonds outstanding were paid in full.

Multi-Family Bond Program Funds

Total assets of the Multi-Family Bond Program Funds were \$40.5 million at the end of FY03 as compared to \$39.2 million at the end of FY02. Of this total, \$38.8 million is held as noncurrent assets, with \$34.5 million held in investments and \$4.3 million consisting of mortgage loans receivable.

FY03 total assets represent a 3.2% (\$1.3 million) increase from the FY02 balance, due mainly to increases in current investments (8.5%) and noncurrent investments (7.6%).

Liabilities for FY03 amounted to \$21.9 million, almost all of which (\$21.5 million) is bonds payable compared to liabilities for FY02 of \$23.7 million, almost all of which (\$23.3 million) was bonds payable. FY03 total liabilities dropped 7.6% (\$1.8 million) from that of FY02, due to the redemption of bonds in connection with the payoff of one of the Authority's multi-family loans, Santa Clara Apartments (Santa Clara).

Net assets of the Multi-Family Bond Program Funds increased 20% (\$3.1 million) during FY03, ending the fiscal year at \$18.6 million. During FY02, net assets of the Multi-Family Bond Program Funds increased 12.9% or \$1.8 million, ending the fiscal year at \$15.5 million. This increase for FY03 was due to the Santa Clara payoff (and the resulting decrease in total liabilities), as well as the fact that no transfer of money was made to the General Fund in FY03.

Multi-Family Bond Program Funds' operating revenues totaled \$4.5 million for FY03 and \$3.4 for FY02. Of the FY03 revenues, \$2.4 million came from investments, while \$.3 million was income from mortgage loans. Also, \$ 1.7 million of revenues was a result of an increase in the fair value of investments, pursuant to GASB No. 31. The Authority experienced a 33.3% (\$1.1 million) increase in revenues under this Fund in FY03 compared to an 11.1% (\$0.4 million) decrease in revenues in FY02. The majority of this increase is due to the fact that the increase in the fair value of investments for FY03 (\$1.7 million) was more than 4 times the FY02 increase.

Operating expenses for the Multi-Family Bond Program Funds in FY03 and FY02 totaled \$1.5 million and \$1.6 million, respectively. Nearly all of the \$1.5 million consists of interest on bonds.

The resulting FY03 operating income of \$3.1 million was 73% (\$1.3 million) more than the FY02 operating income of \$1.8 million. The main reason for the increase is due to the fair value of investments

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increasing \$1.7 million. The Authority did not transfer a significant amount of money in FY03 and FY02 from this fund to the General Fund, as it has done in the past.

Housing Assistance Program Funds

Total assets of the Housing Assistance Program Funds grew 13.3% during FY03, ending the fiscal year at \$22.2 million compared to an ending balance of \$19.6 million for FY02. For FY03, \$9.6 million of the Housing Assistance Program Funds' assets are current assets, with \$6.5 million held in cash and cash equivalents. The Authority is holding these amounts as current assets because it expects to disburse much of these moneys for program purposes during the next twelve months. The other major component of total assets is loans receivable (\$14.5 million).

The Housing Assistance Program Funds have total liabilities of \$2.6 million for the fiscal year ending June 30, 2003 whereas FY02 ended the year with liabilities of \$0.6 million. \$1.7 million of the Housing Assistance Program Funds' liabilities is a current liability payable under the Fannie Mae Credit Facility. Total liabilities increased almost four times in FY03 with the main reason being the use of the Fannie Mae Credit Facility to finance the Vintage Park Apartment Construction Loan.

Net assets of this Fund were \$ 19.6 million, an increase of 3.4% over the FY02 ending balance of \$19 million.

Operating revenues of the Housing Assistance Program Funds totaled \$1.1 million and \$2.4 million in FY03 and FY02, respectively. For FY03, approximately \$0.8 million came from federal grants and \$0.3 million from interest income. Operating revenues were 47.6% (\$1.3 million) lower in FY03 versus FY02, largely as a result of a decrease of \$1.0 million in interest income from the FY02 amount of \$1.3 million.

FY03 operating expenses were \$4.2 million compared to \$5.6 million for FY02. The major portion of FY03 operating expenses (\$3.7 million) was for grants and aid for low-income housing. Grants and aid for FY03 decreased 8% as compared to the FY02 level (\$4.0 million). Also, provisions for losses in FY03 were \$0.4 million, a substantial decrease (4 times) over the FY02 level of \$1.5 million, due to valuations of loans held in this Fund.

The Housing Assistance Program Funds incurred an operating loss of \$3.0 million in FY03, down \$0.2 million from the \$3.2 million operating loss experienced in FY02.

There was a 3.4% increase (\$.65 million) in net assets for FY03. Interfund transfers in FY03 included the receipt of \$3.9 million in excess moneys from the Title Guaranty Division Program Fund, \$2.3 million received from the General Fund for loans and grants, and \$3.1 million in transfers to the Single Family Bond Program Funds.

Clean Water Program Funds

Clean Water Program Funds assets amounted to \$424.6 million as of June 30, 2003 and \$423.7 as of June 30, 2002. As compared to FY02, Clean Water Program Funds' assets increased 0.2% (\$0.7 million). Current assets totaled \$137.3 million, with cash and cash equivalents accounting for \$111.2 million of that total and investments accounting for \$10.5 million. Noncurrent assets totaled \$287.3 million for FY03. Of this total, \$75.9 million is held in noncurrent investments while the majority, \$211.4 million, consists of loans to municipalities.

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FY03 liabilities of the Clean Water Program Funds are 92.7% (\$172.1 million) of the FY02 balance of \$185.7 million (in other words, FY03 liabilities have decreased by 7.3% (\$13.6 million)).

Net assets of the Clean Water Program Funds ended FY03 at \$252.5 million, an increase of 6.1% over the FY02 ending net assets of \$238 million.

Operating revenues in FY03 were \$41.1 million, up 22% from FY02 revenues of \$33.7 million. Interest income for FY03 comprised \$14.5 million (with 37.2% coming from investments and 62.8% from loans to municipalities) while federal capitalization grants comprised \$26.2 million.

Clean Water Program Funds' operating expenses were \$9.9 million in FY03, down from FY02 operating expenses of \$12.0 million. Interest on bonds (\$8.6 million) constituted the largest component of the expenses. FY03 expenses were 1.8% lower than those in FY02.

Operating income totaled \$31.2 million in FY03, up 43.8% (\$9.5 million) from the FY02 operating income of \$21.7 million. Because of an interfund transfer of \$16.8 million to the Drinking Water Program Funds, the change in net assets was \$14.4 million, a 6.1% increase in net assets over FY02.

Drinking Water Program Funds

Assets of the Drinking Water Program Funds grew 91% (\$90.9 million) in FY03, ending the year at \$191 million compared with assets at the end of FY02 of \$100.1 million. This significant increase was the result of \$52 million of new bonds issued for the program, and the transfer of \$16.8 million from the Clean Water Program Funds.

Total liabilities for the Drinking Water Program Funds also increased substantially in FY03, ending the fiscal year at \$113.5 million, an increase of 86% (\$52 million) over the ending FY02 balance of \$61.5 million. An increase in bonds payable, from the new issue, accounted for the increase in liabilities.

Drinking Water Program Funds' net assets ended FY03 with a balance of \$77.5 million, an increase of 100.8% (\$38.9 million) over FY02 net assets of \$38.6 million.

Operating revenues in FY03 were \$26.6 million, \$22.1 million of which came from federal capitalization grants. This is comparable to the FY02 operating revenues of \$23.9 million, \$20.7 of which came from federal capitalization grants. Revenues increased 11.4% (\$2.7 million) in FY03, with \$1.4 million of this increase resulting from increased federal grants, and the remaining \$1.3 million coming from an increase in interest income due to increased investment balances and increased loans to municipalities.

FY03 operating expenses totaled \$4.5 million, with interest on bonds and general/administrative expenses comprising \$3.8 million and \$.7 million, respectively. In comparison, FY02 operating expenses totaled \$3.0 million, with interest on bonds and general/administrative expenses comprising \$2.4 million and \$0.6 million, respectively. The increase in bonds payable and the resulting increase in interest on those bonds caused FY03 expenses to be 50.5% (\$1.5 million) higher than the expenses from FY02.

The Drinking Water Program Funds posted operating income of \$22.1 million for FY03, which was a 5.8% (\$1.2 million) increase over the FY02 level \$20.9 million. Again, the main reason for this increase was the \$1.4 million increase in federal grants received in FY03 as compared to the grants received in FY02. Combined with a net interfund transfer of \$16.8 million from the Clean Water Program Funds to the

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Drinking Water Program Funds, the \$22.1 million operating income for Drinking Water resulted in a 100.8% increase in its net assets for FY03.

Title Guaranty Division Program Fund

The Title Guaranty Division Program Fund ended the 2003 and 2002 fiscal years with \$5.7 million and \$7.8 million, respectively, in total assets. Of the FY03 balance, \$5.3 million is held in a State of Iowa account in the form of cash and cash equivalents, with the interest earnings distributed to the Iowa Department of Economic Development. FY03 assets were 26.9% (\$2.1 million) lower than the ending FY02 balance.

Liabilities of the Title Guaranty Division Program Fund for FY03 and FY02 amounted to \$3.8 million and \$6.1 million, respectively. FY03 liabilities were 37.7% (\$2.3 million) lower than the ending FY02 balance. The reduction in total liabilities is due mainly to the one-time payment of \$2.7 million to the general fund of the State of Iowa, which was included in FY02 liabilities. The reserve for losses account amounted to \$3.7 million, a 11.6% (\$.4 million) increase from the FY02 reserve balance.

Title Guaranty Division Program Fund net assets ended FY03 at \$1.9 million, a 11.6% increase over FY02 net assets of \$1.7 million.

Operating revenues for Title Guaranty Division Program Fund consist solely of fees charged for services, and amounted to \$5.7 million in FY03 and \$5.2 million in FY02. The FY03 amount established a new record for the Division, surpassing last year's record setting year by 9.7% (.5 million).

FY03 Title Guaranty Division Program Fund operating expenses totaled about \$1.8 million compared to an amount for FY02 of only \$73,000, however, there was a net release of reserves in the amount of \$1.2 million during FY02. General and administrative expenses in FY03 (\$1.5 million) were 18.7% higher than the FY02 general and administrative expenses (\$1.2 million).

With another increase in fee revenue, the Title Guaranty Division Program Fund FY03 operating income was \$3.9 million which is nearly the same as the FY02 operating income of \$5.1 million after considering the \$1.2 million release of reserves that occurred in FY02 as a result of the actuarial analysis done in FY02. During FY03 \$3.9 million was transferred out of the Title Guaranty Division Program Fund to the Housing Assistance Program Funds and then to the Single Family Bond Program Funds to assist with costs associated with the Authority's FirstHome Program. The net result of the operating income and these transfers was the 11.6% increase in the Title Guaranty Division Program Fund net assets.

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Major Financing and Long-Term Debt Activity

The following list details the major financing activity of the Authority during FY03 (please note that bond issues for which the Authority serves as a conduit issuer and which are in no way secured by assets of the Authority have been excluded from this list):

<u>Date</u>	<u>Amount</u>	<u>Type of Activity</u>
10/30/02	\$45,000,000	New Issue / Refunding – Single Family Mortgage Bonds, 2002 Series F, G, H & I – entire issue was new money, made \$45,000,000 available for new loans; utilized \$34,935,000 of bond cap; rated AAA by Standard & Poor’s and Aaa by Moody’s.
12/17/02	\$20,000,000	Established a new line of credit with Wells Fargo to refund former line of credit and to preserve bond cap for single family program purposes; entered into a new investment agreement; not rated.
01/23/03	\$56,100,000	New Issue – Iowa State Revolving Fund Revenue Bonds, Series 2003; raised new monies to fund loans; rated AAA by Standard & Poor’s, Aaa by Moody’s, and AAA by Fitch.
03/19/03	\$45,000,000	New Issue – Single Family Mortgage Bonds, 2003 Series A & B – entire issue was new money, made \$45,361,200 available for new loans; utilized \$35,361,200 of bond cap and included \$10,000,000 of taxable bonds; rated AAA by Standard & Poor’s and Aaa by Moody’s.
06/25/03	\$50,000,000	New Issue/Refunding – Single Family Mortgage Bonds, 2003 Series C, D, E, F & G; utilized \$23,705,607 of bond cap; made available \$50,555,607 for new loans; rated AAA by Standard & Poor’s and Aaa by Moody’s.

As mentioned above, the Authority administers a first-time homebuyer program (the “FirstHome Program”) in order to provide low cost and low interest loans to persons and families in the State of Iowa looking to purchase their first home.

Because of its desire to provide the lowest possible mortgage rates to participants in the FirstHome Program, the Authority has entered into an agreement (the “Agreement”) with UBS AG (“UBS AG”) as counterparty. Under the Agreement, the Authority may, from time to time, enter into derivative transactions in connection with particular issues of bonds. Depending on market conditions, a variable rate bond issue and a related interest rate swap may help the Authority achieve the lowest possible full spread rates. The Authority may also issue variable rate taxable debt from time to time and enter into interest rate cap or corridor transactions under the Agreement.

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In September of 2002, in connection with the issuance of its 2002 Series F, 2002 Series G, 2002 Series H and 2002 Series I bond issue, the Authority entered into its first swap transaction under the Agreement. The 2002 Series I Bonds were issued as variable rate demand obligations (“VRDOs”) initially set to bear interest at a weekly rate, and an interest rate swap (the “2002 Series I Transaction”) was executed under the Agreement. Additional details about the 2002 Series I Transaction are set forth in Note 5 to the financial statements.

Because of historically low conventional mortgage rates, the Authority also put in place an interest rate swap (the “2003 Series F Transaction”) in connection with the issuance of its 2003 Series C, 2003 Series D, 2003 Series E, 2003 Series F and 2003 Series G bond issue. The 2003 Series F Bonds were issued as VRDOs initially set to bear interest at a weekly rate. Because the Authority did not want to have unhedged variable rate debt outstanding, it entered into the 2003 Series F Transaction with UBS AG. Additional details about the Agreement and the 2003 Series F Transaction are set forth in Note 5 to the financial statements.

In addition, in connection with its 2003 Series B Bonds, the Authority entered into an interest rate corridor transaction (or cap) under the Agreement (the “2003 Series B Corridor”). The 2003 Series B Bonds were issued in the amount of \$10,000,000 as taxable variable rate bonds, with interest based on a spread to three-month LIBOR. To reduce its variable rate exposure with respect to the 2003 Series B Bonds, the Authority executed the 2003 Series B Corridor, under which the Authority purchased a cap at the strike rate of 6.00% (based on three-month LIBOR) and sold a cap to UBS at a rate of 11.00% (which matched the embedded maximum rate on the related bonds). The 2003 Series B Corridor has a 10 year term, which matches the expected life of the related bonds.

The Authority also entered into a corridor transaction under the Agreement (the “2003 Series G Corridor”) in connection with its issuance of \$10,000,000 of 2003 Series G Bonds, which are taxable variable rate bonds also based on three-month LIBOR. The Authority structured the 2003 Series G Corridor with a strike rate of 5.00% and sold a cap to UBS at a rate of 10% (which matched the embedded maximum rate on the related bonds). The term of the 2003 Series G Corridor is 10 years, which is shorter than the expected life of the related 2003 Series G Bonds. The Authority expects that approximately \$1.3 million will still be outstanding when the 2003 Series G Corridor terminates. Thus, the Authority will have some variable rate risk based on the amount of 2003 Series G Bonds that are outstanding when the 2003 Series G Corridor expires.

Additional Information

For additional information with respect to this management discussion and analysis or for information concerning the Financial Statements, please contact the Authority’s Chief Financial Officer at (515) 242-4990.

IOWA FINANCE AUTHORITY

Financial Statements

June 30, 2003 and 2002

IOWA FINANCE AUTHORITY

Statement of Net Assets

June 30, 2003

	General Fund	Single Family Bond Program Funds	Multi-Family Bond Program Funds	Housing Assistance Program Funds
Assets (Note 4)				
Current assets:				
Cash and cash equivalents (note 2)	\$ 5,428,306	9,111,617	2,131	6,503,605
Investments (note 2)	8,363,408	142,170,789	1,150,061	—
Mortgage-backed securities	128,565	5,761,579	—	—
Mortgage loans receivable, net (note 3)	267,042	1,358,779	53,175	1,889,523
Loans to municipalities or water systems	—	—	—	—
Other loans, net (note 3)	6,993	—	—	503,179
Accrued interest receivable	397,969	2,720,512	463,327	94,480
Other assets	581,106	18,369	1,436	655,841
Interfund accounts	370,348	(141,313)	—	—
Total current assets	<u>15,543,737</u>	<u>161,000,332</u>	<u>1,670,130</u>	<u>9,646,628</u>
Noncurrent assets:				
Investments (note 2)	33,217,507	31,590,766	34,509,285	—
Mortgage-backed securities	1,188,175	370,548,361	—	—
Mortgage loans receivable, net (note 3)	753,801	7,086,565	4,305,667	5,838,135
Loans to municipalities or water systems	—	—	—	—
Other loans, net (note 3)	195,066	—	—	6,748,460
Capital assets, net of accumulated depreciation of \$1,079,641	576,269	—	—	—
Total noncurrent assets	<u>35,930,818</u>	<u>409,225,692</u>	<u>38,814,952</u>	<u>12,586,595</u>
Total assets	<u>\$ 51,474,555</u>	<u>570,226,024</u>	<u>40,485,082</u>	<u>22,233,223</u>
Liabilities				
Current liabilities:				
Notes and bonds payable, net (note 4)	\$ 215,000	54,015,279	668,075	1,720,000
Accrued interest payable	1,154	10,796,469	354,215	6,880
Accounts payable and other	1,579,725	255,746	6,737	—
Rebates owed	—	1,998,300	—	—
Escrow deposits	—	—	—	156,033
Deferred loan fees	13,840	244,682	—	—
Deferred compliance monitoring fees	107,256	—	—	—
Total current liabilities	<u>1,916,975</u>	<u>67,310,476</u>	<u>1,029,027</u>	<u>1,882,913</u>
Noncurrent liabilities:				
Notes and bonds payable, net (note 4)	—	434,056,931	20,876,218	—
Reserves for Title Guaranty Division losses	—	—	—	—
Rebates owed	—	2,999,241	—	—
Deferred loan fees	118,865	1,317,807	—	—
Deferred compliance monitoring fees	667,856	—	—	—
Deferred grants and aid	—	—	—	721,314
Total noncurrent liabilities	<u>786,721</u>	<u>438,373,979</u>	<u>20,876,218</u>	<u>721,314</u>
Commitments and contingencies (notes 1 and 6)				
Total liabilities	<u>\$ 2,703,696</u>	<u>505,684,455</u>	<u>21,905,245</u>	<u>2,604,227</u>
Net Assets				
Restricted net assets:				
Per bond resolutions	\$ —	64,541,569	18,579,837	—
Per legislation	3,833,719	—	—	9,744,677
Per other agreements	8,896,238	—	—	9,094,603
Unrestricted net assets	36,040,902	—	—	789,716
Total net assets	<u>\$ 48,770,859</u>	<u>64,541,569</u>	<u>18,579,837</u>	<u>19,628,996</u>

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY

Statement of Net Assets

June 30, 2003

Clean Water Program Funds	Drinking Water Program Funds	Title Guaranty Division Program Fund	Totals
111,219,633	26,907,898	5,337,469	164,510,659
10,453,330	3,905,154	—	166,042,742
—	—	—	5,890,144
—	—	—	3,568,519
13,200,000	3,775,000	—	16,975,000
—	32,000	—	542,172
2,522,912	1,664,906	—	7,864,106
39,838	19,210	6,562	1,322,362
(119,243)	(63,411)	(46,381)	—
137,316,470	36,240,757	5,297,650	366,715,704
75,901,704	90,737,808	—	265,957,070
—	—	—	371,736,536
—	—	—	17,984,168
211,381,357	63,317,523	—	274,698,880
—	659,000	—	7,602,526
—	—	394,190	970,459
287,283,061	154,714,331	394,190	938,949,639
424,599,531	190,955,088	5,691,840	1,305,665,343
12,330,888	1,568,751	—	70,517,993
3,492,760	2,127,312	—	16,778,790
430,705	228,766	119,370	2,621,049
1,079,947	—	—	3,078,247
—	—	—	156,033
181,675	51,846	—	492,043
—	—	—	107,256
17,515,975	3,976,675	119,370	93,751,411
150,996,674	107,137,447	—	713,067,270
—	—	3,706,688	3,706,688
1,383,536	1,482,907	—	5,865,684
2,206,613	905,065	—	4,548,350
—	—	—	667,856
—	—	—	721,314
154,586,823	109,525,419	3,706,688	728,577,162
172,102,798	113,502,094	3,826,058	822,328,573
143,620,172	50,985,598	—	277,727,176
—	—	1,865,782	15,444,178
108,876,561	26,467,396	—	153,334,798
—	—	—	36,830,618
252,496,733	77,452,994	1,865,782	483,336,770

IOWA FINANCE AUTHORITY

Statement of Net Assets

June 30, 2002

	General Fund	Single Family Bond Program Funds	Multi-Family Bond Program Funds	Housing Assistance Program Funds
Assets (Note 4)				
Current assets:				
Cash and cash equivalents (note 2)	\$ 8,574,504	6,476,734	23,226	9,005,623
Investments (note 2)	7,227,776	55,868,766	1,059,717	1,897,111
Mortgage-backed securities	68,661	4,677,620	—	—
Mortgage loans receivable, net (note 3)	15,583	1,712,676	63,512	28,914
Loans to municipalities or water systems	—	—	—	—
Other loans, net (note 3)	—	—	—	477,855
Accrued interest receivable	394,176	2,550,452	511,022	74,019
Other assets	633,928	22,867	1,880	—
Interfund accounts	202,736	(300)	—	—
Total current assets	<u>17,117,364</u>	<u>71,308,815</u>	<u>1,659,357</u>	<u>11,483,522</u>
Noncurrent assets:				
Investments (note 2)	31,467,047	71,944,694	32,077,875	50,000
Mortgage-backed securities	1,892,473	300,035,987	—	—
Mortgage loans receivable, net (note 3)	275,076	10,993,207	5,486,383	1,396,870
Loans to municipalities or water systems	—	—	—	—
Other loans, net (note 3)	90,234	—	—	6,696,825
Capital assets, net of accumulated depreciation of \$994,013	321,334	—	—	—
Total noncurrent assets	<u>34,046,164</u>	<u>382,973,888</u>	<u>37,564,258</u>	<u>8,143,695</u>
Total assets	<u>\$ 51,163,528</u>	<u>454,282,703</u>	<u>39,223,615</u>	<u>19,627,217</u>
Liabilities				
Current liabilities:				
Bonds payable, net (note 4)	\$ —	36,915,530	649,294	—
Accrued interest payable	—	9,330,874	388,505	—
Accounts payable and other	507,072	182,599	2,825	—
Rebates owed	—	1,536,457	—	—
Deferred loan fees	5,980	321,283	—	—
Deferred compliance monitoring fees	71,769	—	—	—
Total current liabilities	<u>584,821</u>	<u>48,286,743</u>	<u>1,040,624</u>	<u>—</u>
Noncurrent liabilities:				
Bonds payable, net (note 4)	—	353,795,442	22,659,080	—
Reserves for Title Guaranty Division losses	—	—	—	—
Rebates owed	—	3,433,682	—	—
Deferred loan fees	19,450	1,667,251	—	—
Deferred compliance monitoring fees	561,876	—	—	—
Deferred grants and aid	—	—	—	649,210
Total noncurrent liabilities	<u>581,326</u>	<u>358,896,375</u>	<u>22,659,080</u>	<u>649,210</u>
Commitments and contingencies (notes 1 and 6)				
Total liabilities	<u>\$ 1,166,147</u>	<u>407,183,118</u>	<u>23,699,704</u>	<u>649,210</u>
Net Assets				
Restricted net assets:				
Per bond resolutions	\$ —	46,522,605	15,523,911	—
Per legislation	2,656,115	—	—	10,063,595
Per other agreements	6,338,311	576,980	—	3,832,424
Unrestricted net assets	41,002,955	—	—	5,081,988
Total net assets	<u>\$ 49,997,381</u>	<u>47,099,585</u>	<u>15,523,911</u>	<u>18,978,007</u>

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY

Statement of Net Assets

June 30, 2002

Clean Water Program Funds	Drinking Water Program Funds	Title Guaranty Division Program Fund	Totals
108,805,251	7,366,165	7,511,727	147,763,230
20,755,012	3,263,053	—	90,071,435
—	—	—	4,746,281
—	—	—	1,820,685
11,755,000	1,890,000	—	13,645,000
—	—	—	477,855
3,466,345	1,613,513	—	8,609,527
24,460	8,179	5,027	696,341
(129,548)	(36,585)	(36,303)	—
144,676,520	14,104,325	7,480,451	267,830,354
75,010,049	44,089,120	—	254,638,785
—	—	—	301,928,460
—	—	—	18,151,536
204,064,064	41,837,665	—	245,901,729
—	—	—	6,787,059
—	—	301,984	623,318
279,074,113	85,926,785	301,984	828,030,887
423,750,633	100,031,110	7,782,435	1,095,861,241
15,203,969	1,633,507	—	54,402,300
4,723,854	1,567,367	—	16,010,600
380,054	206,957	2,789,883	4,069,390
326,218	—	—	1,862,675
163,633	34,891	—	525,787
—	—	—	71,769
20,797,728	3,442,722	2,789,883	76,942,521
160,014,073	56,205,551	—	592,674,146
—	—	3,320,696	3,320,696
2,864,182	1,198,457	—	7,496,321
2,072,261	623,744	—	4,382,706
—	—	—	561,876
—	—	—	649,210
164,950,516	58,027,752	3,320,696	609,084,955
185,748,244	61,470,474	6,110,579	686,027,476
136,064,053	32,364,609	—	230,475,178
—	—	1,671,856	14,391,566
101,938,336	6,196,027	—	118,882,078
—	—	—	46,084,943
238,002,389	38,560,636	1,671,856	409,833,765

IOWA FINANCE AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2003

	General Fund	Single Family Bond Program Funds	Multi-Family Bond Program Funds
Operating revenues:			
Interest income:			
Investments and bank deposits	\$ 2,089,643	4,248,194	2,389,993
Rebate expense	—	(67,493)	—
Net (decrease) increase in fair value of investments	(528,430)	—	1,682,689
Mortgage-backed securities	119,310	20,771,202	—
Net (decrease) increase in fair value of mortgage-backed securities	(31,183)	12,890,488	—
Mortgage and other loans	55,943	848,620	295,549
FAF refunding savings	—	—	141,648
Total interest income	1,705,283	38,691,011	4,509,879
Federal grants	—	—	—
Title guaranty fees, net	—	—	—
HUD contract administration fees	2,250,908	—	—
HUD participating administrative entity fees	19,250	—	—
Loan fees earned	71,556	465,635	—
Low income housing tax credit fees	505,319	—	—
Economic development revenue bond fees	153,803	—	—
Other income and fees	21,955	—	4,705
Total operating revenues	4,728,074	39,156,646	4,514,584
Operating expenses:			
Interest on bonds	3,069	22,351,754	1,441,364
Authority fees	(766,057)	761,127	4,930
General and administrative	5,274,989	169,793	12,364
Provision for losses	36,799	—	—
Grants and aid	—	1,410	—
Total operating expenses	4,548,800	23,284,084	1,458,658
Operating income (loss)	179,274	15,872,562	3,055,926
Nonoperating revenues (expenses):			
Assets received from Iowa Housing Corporation	—	—	—
Income (loss) before transfers	179,274	15,872,562	3,055,926
Interfund transfers, net	(1,405,796)	1,569,422	—
Change in net assets	(1,226,522)	17,441,984	3,055,926
Net assets at June 30, 2002	49,997,381	47,099,585	15,523,911
Net assets at June 30, 2003	\$ 48,770,859	64,541,569	18,579,837

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2003

Housing Assistance Program Funds	Clean Water Program Funds	Drinking Water Program Funds	Title Guaranty Division Program Fund	Totals
204,030	5,434,932	2,860,597	—	17,227,389
—	(66,783)	(269,463)	—	(403,739)
76,494	—	—	—	1,230,753
—	—	—	—	20,890,512
—	—	—	—	12,859,305
29,148	9,117,184	1,754,683	—	12,101,127
—	—	—	—	141,648
309,672	14,485,333	4,345,817	—	64,046,995
823,963	26,249,305	22,109,397	—	49,182,665
—	—	—	5,717,383	5,717,383
—	—	—	—	2,250,908
—	—	—	—	19,250
—	201,297	40,754	—	779,242
—	—	—	—	505,319
—	—	—	—	153,803
55	207,560	128,867	—	363,142
1,133,690	41,143,495	26,624,835	5,717,383	123,018,707
7,184	8,583,362	3,757,635	—	36,144,368
—	—	—	—	—
40,935	1,265,789	774,842	1,457,865	8,996,577
395,304	—	—	385,992	818,095
3,745,252	—	—	—	3,746,662
4,188,675	9,849,151	4,532,477	1,843,857	49,705,702
(3,054,985)	31,294,344	22,092,358	3,873,526	73,313,005
190,000	—	—	—	190,000
(2,864,985)	31,294,344	22,092,358	3,873,526	73,503,005
3,515,974	(16,800,000)	16,800,000	(3,679,600)	—
650,989	14,494,344	38,892,358	193,926	73,503,005
18,978,007	238,002,389	38,560,636	1,671,856	409,833,765
19,628,996	252,496,733	77,452,994	1,865,782	483,336,770

IOWA FINANCE AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2002

	General Fund	Single Family Bond Program Funds	Multi-Family Bond Program Funds
Operating revenues:			
Interest income:			
Investments and bank deposits	\$ 2,523,589	5,150,807	2,405,251
Rebate expense	—	(152,900)	—
Net increase in fair value of investments	274,240	—	385,324
Mortgage-backed securities	173,163	16,103,714	—
Net increase in fair value of mortgage-backed securities	20,419	5,125,707	—
Mortgage and other loans	11,955	1,202,874	737,268
FAF refunding savings	—	—	(157,176)
Total interest income	3,003,366	27,430,202	3,370,667
Federal grants	—	—	—
Title guaranty fees, net	—	—	—
HUD contract administration fees	2,140,862	—	—
HUD participating administrative entity fees	197,225	—	—
Loan fees earned	6,719	468,256	—
Low income housing tax credit fees	770,887	—	—
Economic development revenue bond fees	152,015	—	—
Other income and fees	17,300	—	15,211
Total operating revenues	6,288,374	27,898,458	3,385,878
Operating expenses:			
Interest on bonds	—	19,399,792	1,592,906
Loss on bond redemption	—	—	—
Authority fees	(340,004)	333,276	6,728
General and administrative	4,532,280	129,436	17,076
Provision for losses	—	—	—
Grants and aid	—	—	—
Total operating expenses	4,192,276	19,862,504	1,616,710
Operating income (loss)	2,096,098	8,035,954	1,769,168
Nonoperating revenues (expenses):			
Assets received from Iowa Housing Corporation	—	—	—
Disbursement to State of Iowa	—	—	—
Total nonoperating revenues (expenses)	—	—	—
Income before transfers	2,096,098	8,035,954	1,769,168
Interfund transfers, net	(1,714,438)	2,641,486	12
Change in net assets	381,660	10,677,440	1,769,180
Net assets at June 30, 2001	49,615,721	36,422,145	13,754,731
Net assets at June 30, 2002	\$ 49,997,381	47,099,585	15,523,911

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Assets
Year ended June 30, 2002

Housing Assistance Program Funds	Clean Water Program Funds	Drinking Water Program Funds	Title Guaranty Division Program Fund	Totals
433,479	9,099,767	2,417,657	—	22,030,550
—	(478,085)	(446,053)	—	(1,077,038)
802,791	—	—	—	1,462,355
—	—	—	—	16,276,877
—	—	—	—	5,146,126
96,865	9,073,905	1,122,011	—	12,244,878
—	—	—	—	(157,176)
1,333,135	17,695,587	3,093,615	—	55,926,572
1,046,645	15,733,935	20,746,748	—	37,527,328
—	—	—	5,211,793	5,211,793
—	—	—	—	2,140,862
—	—	—	—	197,225
—	184,245	21,944	—	681,164
—	—	—	—	770,887
—	—	—	—	152,015
200	128,489	33,370	—	194,570
2,379,980	33,742,256	23,895,677	5,211,793	102,802,416
—	9,902,738	2,389,288	—	33,284,724
—	1,095,581	—	—	1,095,581
—	—	—	—	—
53,225	995,083	621,708	1,228,145	7,576,953
1,470,450	—	—	(1,155,575)	314,875
4,074,125	—	—	—	4,074,125
5,597,800	11,993,402	3,010,996	72,570	46,346,258
(3,217,820)	21,748,854	20,884,681	5,139,223	56,456,158
7,734,552	—	—	—	7,734,552
—	—	—	(2,700,000)	(2,700,000)
7,734,552	—	—	(2,700,000)	5,034,552
4,516,732	21,748,854	20,884,681	2,439,223	61,490,710
1,477,081	—	—	(2,404,141)	—
5,993,813	21,748,854	20,884,681	35,082	61,490,710
12,984,194	216,253,535	17,675,955	1,636,774	348,343,055
18,978,007	238,002,389	38,560,636	1,671,856	409,833,765

IOWA FINANCE AUTHORITY

Statement of Cash Flows

Year ended June 30, 2003

	General Fund	Single Family Bond Program Funds	Multi-Family Bond Program Funds	Housing Assistance Program Funds
Cash flows from operating activities:				
Cash receipts for fees	\$ 4,621,370	39,590	4,705	—
Net change in fair value of cash equivalents	(120)	—	—	76,494
Interest received on loans and mortgage-backed securities	168,689	21,444,957	491,151	202,047
Principal repayments on loans and mortgage-backed securities	1,007,741	72,399,837	1,191,052	764,136
Purchases of loans and mortgage- backed securities	(1,273,337)	(127,118,205)	—	(7,577,669)
Grants received	—	—	—	896,067
Single family residuals	—	412,963	—	—
Interest received for notes	—	—	—	304
Cash payments to employees	(3,765,330)	—	—	—
Cash payments to suppliers and grantees	(1,027,925)	(853,577)	(12,938)	(4,251,220)
Net cash (used in) provided by operating activities	(268,912)	(33,674,435)	1,673,970	(9,889,841)
Cash flows from non-capital financing activities:				
Proceeds from issuance of bonds and notes	315,000	158,243,828	—	1,720,000
Repayment of debt	(100,000)	(60,818,759)	(1,840,000)	—
Payment of interest on bonds and notes	(1,915)	(20,517,488)	(1,430,405)	(304)
Interfund transfers	(1,405,796)	1,569,422	—	3,515,974
Payment of bond issuance costs	—	(432,500)	30,670	—
Net cash (used in) provided by non-capital financing activities:	(1,192,711)	78,044,503	(3,239,735)	5,235,670
Cash flows from investing activities:				
Purchases of investments	(24,200,639)	(257,509,018)	(4,509,282)	—
Interest received on investments	2,297,149	4,637,190	1,885,455	202,153
Sales/maturities of investments	20,581,503	211,560,926	4,168,497	1,950,000
Purchase of capital assets	(362,588)	—	—	—
Payment of rebate owed	—	(424,283)	—	—
Net cash (used in) provided by investing activities	(1,684,575)	(41,735,185)	1,544,670	2,152,153
(Decrease) increase in cash and cash equivalents	(3,146,198)	2,634,883	(21,095)	(2,502,018)
Cash and cash equivalents, beginning of the year	8,574,504	6,476,734	23,226	9,005,623
Cash and cash equivalents, end of the year	\$ 5,428,306	9,111,617	2,131	6,503,605

IOWA FINANCE AUTHORITY

Statement of Cash Flows

Year ended June 30, 2003

Clean Water Program Funds	Drinking Water Program Funds	Title Guaranty Division Program Fund	Totals
545,870	456,868	5,774,423	11,442,826
—	—	—	76,374
—	—	—	—
9,150,071	1,687,735	—	33,144,650
—	—	—	—
25,941,259	2,294,023	—	103,598,048
(34,703,552)	(26,349,881)	—	(197,022,644)
26,249,305	22,109,397	—	49,254,769
—	—	—	412,963
—	—	—	304
—	—	(950,731)	(4,716,061)
—	—	—	—
(1,225,443)	(726,207)	(3,030,228)	(11,127,538)
<u>25,957,510</u>	<u>(528,065)</u>	<u>1,793,464</u>	<u>(14,936,309)</u>
3,324,460	52,696,687	—	216,299,975
(15,355,000)	(1,560,000)	—	(79,673,759)
(9,661,321)	(3,261,351)	—	(34,872,784)
(16,800,000)	16,800,000	(3,679,600)	—
(13,075)	(205,887)	—	(620,792)
<u>(38,504,936)</u>	<u>64,469,449</u>	<u>(3,679,600)</u>	<u>101,132,640</u>
(41,887,584)	(76,976,857)	—	(405,083,380)
6,380,207	2,891,141	—	18,293,295
51,297,612	29,686,065	—	319,244,603
—	—	(288,122)	(650,710)
(828,427)	—	—	(1,252,710)
<u>14,961,808</u>	<u>(44,399,651)</u>	<u>(288,122)</u>	<u>(69,448,902)</u>
2,414,382	19,541,733	(2,174,258)	16,747,429
<u>108,805,251</u>	<u>7,366,165</u>	<u>7,511,727</u>	<u>147,763,230</u>
<u>111,219,633</u>	<u>26,907,898</u>	<u>5,337,469</u>	<u>164,510,659</u>

IOWA FINANCE AUTHORITY
Statement of Cash Flows, Continued
Year ended June 30, 2003

	General Fund	Single Family Bond Program Funds	Multi-Family Bond Program Funds	Housing Assistance Program Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities :				
Operating income (loss)	\$ 179,274	15,872,562	3,055,926	(3,054,985)
Interest income on investments and bank deposits	(2,089,643)	(4,248,194)	(2,389,993)	(204,030)
Rebate expense	—	67,493	—	—
Interest expense on bonds and notes	3,069	22,351,754	1,441,364	7,184
Net change in fair value of investments and mortgage- backed securities	559,493	(12,890,488)	(1,682,689)	—
Amortization of fees	(115,642)	(426,045)	—	—
Fees received	364,384	—	—	—
Depreciation of capital assets	107,653	—	—	—
Principal repayments on loans and mortgage-backed securities	1,007,741	72,399,837	1,191,052	764,136
Purchases of loans and mortgage-backed securities	(1,273,337)	(127,118,205)	—	(7,577,669)
Provision for loss	36,799	—	—	395,304
Loan principal forgiven	—	273,060	—	235,079
(Increase) decrease in interest receivable on loans and mortgage-backed securities	(6,564)	(174,864)	53,954	(27,157)
(Increase) decrease in other assets	(114,791)	145,510	443	(655,841)
Increase (decrease) in accounts payable and other	1,072,652	73,145	3,913	156,034
Increase in deferred grants and aid	—	—	—	72,104
Net cash (used in) provided by operating activities	\$ <u>(268,912)</u>	<u>(33,674,435)</u>	<u>1,673,970</u>	<u>(9,889,841)</u>

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY
Statement of Cash Flows, Continued
Year ended June 30, 2003

Clean Water Program Funds	Drinking Water Program Funds	Title Guaranty Division Program Fund	Totals
31,294,344	22,092,358	3,873,526	73,313,005
(5,434,932)	(2,860,597)	—	(17,227,389)
66,783	269,463	—	403,739
8,583,362	3,757,635	—	36,144,368
—	—	—	(14,013,684)
(201,297)	(40,754)	—	(783,738)
353,690	339,030	—	1,057,104
—	—	195,916	303,569
25,941,259	2,294,023	—	103,598,048
(34,703,552)	(26,349,881)	—	(197,022,644)
—	—	385,992	818,095
—	—	—	508,139
32,887	(66,949)	—	(188,693)
(15,379)	(11,030)	8,544	(642,544)
40,345	48,637	(2,670,514)	(1,275,788)
—	—	—	72,104
<u>25,957,510</u>	<u>(528,065)</u>	<u>1,793,464</u>	<u>(14,936,309)</u>

IOWA FINANCE AUTHORITY

Statement of Cash Flows

Year ended June 30, 2002

	General Fund	Single Family Bond Program Funds	Multi-Family Bond Program Funds	Housing Assistance Program Funds
Cash flows from operating activities:				
Cash receipts for fees	\$ 4,128,640	48,642	15,211	—
Net change in fair value of cash equivalents	120	—	—	802,791
Interest received on loans and mortgage-backed securities	188,653	16,947,869	573,870	144,826
Principal repayments on loans and mortgage-backed securities	654,059	46,583,608	2,085,222	808,401
Purchases of loans and mortgage- backed securities	(322,014)	(129,764,519)	—	(446,000)
Grants received	—	—	—	1,127,494
Cash payments to employees	(2,355,155)	—	—	—
Cash payments to suppliers and grantees	(2,764,662)	(311,632)	(23,345)	(4,096,727)
Net cash (used in) provided by operating activities	(470,359)	(66,496,032)	2,650,958	(1,659,215)
Cash flows from non-capital financing activities:				
Proceeds from issuance of bonds	—	172,601,947	—	—
Repayment of debt	—	(72,194,579)	(2,780,000)	—
Payment of interest on bonds	—	(17,408,862)	(1,537,838)	—
Interfund transfers	(1,714,438)	2,641,486	12	1,477,081
Payment of bond issuance costs	—	(390,221)	—	—
Cash received from Iowa Housing Corporation	—	—	—	167,250
Net cash (used in) provided by non-capital financing activities:	(1,714,438)	85,249,771	(4,317,826)	1,644,331
Cash flows from investing activities:				
Purchases of investments	(19,485,893)	(214,144,670)	(7,518,415)	(1,927,392)
Interest received on investments	2,631,539	5,481,936	1,952,489	468,217
Sales/maturities of investments	23,812,381	187,684,685	7,244,972	4,750,000
Purchase of capital assets	(68,436)	—	—	—
Payment of rebate owed	—	(76,537)	—	—
Net cash (used in) provided by investing activities	6,889,591	(21,054,586)	1,679,046	3,290,825
Increase (decrease) in cash and cash equivalents	4,704,794	(2,300,847)	12,178	3,275,941
Cash and cash equivalents, beginning of the year	3,869,710	8,777,581	11,048	5,729,682
Cash and cash equivalents, end of the year	\$ 8,574,504	6,476,734	23,226	9,005,623

IOWA FINANCE AUTHORITY

Statement of Cash Flows

Year ended June 30, 2002

Clean Water Program Funds	Drinking Water Program Funds	Title Guaranty Division Program Fund	Totals
442,109	399,156	5,249,286	10,283,044
—	—	—	802,911
9,011,751	1,036,710	—	27,903,679
15,214,000	1,437,000	—	66,782,290
(27,629,856)	(24,755,941)	—	(182,918,330)
15,733,935	20,746,748	—	37,608,177
—	—	(800,621)	(3,155,776)
(806,856)	(524,321)	(287,342)	(8,814,885)
<u>11,965,083</u>	<u>(1,660,648)</u>	<u>4,161,323</u>	<u>(51,508,890)</u>
185,214,162	59,201,172	—	417,017,281
(203,963,634)	(37,583,747)	—	(316,521,960)
(6,581,915)	(1,556,414)	—	(27,085,029)
—	—	(2,404,141)	—
(383,613)	(124,289)	—	(898,123)
<u>—</u>	<u>—</u>	<u>—</u>	<u>167,250</u>
<u>(25,715,000)</u>	<u>19,936,722</u>	<u>(2,404,141)</u>	<u>72,679,419</u>
(145,598,230)	(67,068,139)	—	(455,742,739)
8,517,968	1,824,776	—	20,876,925
242,772,464	53,482,631	—	519,747,133
—	—	(184,365)	(252,801)
(1,520,841)	—	—	(1,597,378)
<u>104,171,361</u>	<u>(11,760,732)</u>	<u>(184,365)</u>	<u>83,031,140</u>
90,421,444	6,515,342	1,572,817	104,201,669
18,383,807	850,823	5,938,910	43,561,561
<u>108,805,251</u>	<u>7,366,165</u>	<u>7,511,727</u>	<u>147,763,230</u>

(Continued)

IOWA FINANCE AUTHORITY
Statement of Cash Flows, Continued
Year ended June 30, 2002

	General Fund	Single Family Bond Program Funds	Multi-Family Bond Program Funds	Housing Assistance Program Funds
Reconciliation of operating income				
(loss) to net cash provided by (used				
in) operating activities				
Operating income (loss)	\$ 2,096,098	8,035,954	1,769,168	(3,217,820)
Interest income on investments				
and bank deposits	(2,523,589)	(5,150,807)	(2,405,251)	(433,479)
Rebate expense	—	152,900	—	—
Interest expense on bonds	—	19,399,792	1,592,906	—
Loss on bond redemption	—	—	—	—
Net change in fair value of				
investments and mortgage-				
backed securities	(294,540)	(5,125,707)	(385,324)	—
Amortization of fees	(78,405)	(469,604)	—	—
Fees received	102,540	49,991	—	—
Depreciation of capital assets	100,458	—	—	—
Principal repayments on loans and				
mortgage-backed securities	654,059	46,583,608	2,085,222	808,401
Purchases of loans and				
mortgage-backed securities	(322,014)	(129,764,519)	—	(446,000)
Provision for loss	—	—	—	1,470,450
Loan principal forgiven	—	—	—	42,379
Claim for loss	—	—	—	(11,267)
(Increase) decrease in interest				
receivable on loans and				
mortgage-backed securities	3,536	(358,719)	(6,222)	59,028
(Increase) decrease in other assets	(178,385)	20,148	765	—
Increase (decrease) in accounts				
payable and other	(30,117)	130,931	(306)	(11,756)
Increase in deferred grants and aid	—	—	—	80,849
Net cash provided by (used				
in) operating activities	\$ (470,359)	(66,496,032)	2,650,958	(1,659,215)

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY
Statement of Cash Flows, Continued
Year ended June 30, 2002

Clean Water Program Funds	Drinking Water Program Funds	Title Guaranty Division Program Fund	Totals
21,748,854	20,884,681	5,139,223	56,456,158
(9,099,767)	(2,417,657)	—	(22,030,550)
478,085	446,053	—	1,077,038
9,902,738	2,389,288	—	33,284,724
1,095,581	—	—	1,095,581
—	—	—	(5,805,571)
(184,243)	(21,944)	—	(754,196)
318,532	370,900	—	841,963
—	—	177,649	278,107
15,214,000	1,437,000	—	66,782,290
(27,629,856)	(24,755,941)	—	(182,918,330)
—	—	(1,155,575)	314,875
—	—	—	42,379
—	—	(22,277)	(33,544)
(62,155)	(85,302)	—	(449,834)
32,850	9,467	11,300	(103,855)
150,464	82,807	11,003	333,026
—	—	—	80,849
11,965,083	(1,660,648)	4,161,323	(51,508,890)

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(1) Organization and Summary of Significant Accounting Policies

Organization

The Iowa Finance Authority (the Authority) was created under Chapter 16 of the Code of Iowa as a public instrumentality of the State of Iowa (the State) to undertake programs which assist in attainment of adequate housing for low or moderate income families, elderly families, and families which include one or more persons who are handicapped or disabled. The Authority is authorized and has issued bonds for these purposes, the proceeds of which are used to provide affordable mortgage financing. The bonds are payable principally from repayments of such mortgage loans. These obligations do not constitute a debt of the State, and the State is not liable for any repayments.

To further accomplish these purposes, the Authority is authorized to allocate federal low income housing tax credits for qualified multi-family housing projects in the State. In addition, federal grants and certain other funds of the Authority are utilized through its various housing assistance programs to provide low interest loans or grants to assist the homeless and low income Iowans in obtaining adequate housing.

The Authority has contracted with the United States Department of Housing and Urban Development (HUD) to serve as Contract Administrator for Section 8 Housing Assistance Payments (HAP) Contracts. The Authority disburses subsidy payments monthly to the multi-family projects and monitors the individual units and projects for compliance with HUD regulations. The Authority served as the Participating Administrative Entity (PAE) in Iowa for HUD's Mark-to-Market multi-family restructuring program during fiscal year 2002 and through the first quarter of fiscal year 2003. As PAE, the Authority worked to preserve affordable rental housing for low and moderate income Iowans as Section 8 HAP Contracts expire.

Chapter 16 authorizes the Small Business Loan Program and the Economic Development Loan Program. The Authority is authorized and has issued revenue bonds under these programs, the proceeds of which have been used to provide limited types of financing for qualified small businesses, manufacturing facilities, group homes for citizens who are mentally or physically handicapped, nonprofit entities, multi-family housing, and economic development. The bonds are payable solely from repayments of the loans which have been assigned, without recourse, to participating financial institutions or to the trustee on behalf of bondholders. These obligations do not constitute a debt of the State nor of the Authority, and neither is liable for any repayments. Therefore, the loans and bonds are not recorded in the Authority's financial statements. Prior to July 1, 1996, the Authority issued approximately \$1.009 billion of these conduit debt obligations, for which the aggregate amount outstanding as of June 30, 2003 is not determinable and cannot be reasonably estimated. The Authority issued approximately \$1.7 billion in fiscal years 1997 through 2003, of which approximately \$1.35 billion is outstanding.

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(1) Organization and Summary of Significant Accounting Policies

Organization, Continued

Chapter 16 authorizes the Iowa Finance Authority Title Guaranty Division (the Division). The purposes of the Division are to supplement the abstract-attorney's title opinion system by providing a low-cost mechanism for guaranties of real property titles, to facilitate mortgage lenders' participation in the secondary market, and to add to the integrity of the land-title transfer system in the State. A title guaranty issued is an obligation of the Division, and claims are payable solely out of the assets and revenues of the Title Guaranty Division Program Fund. The title guarantees do not constitute a debt of the State, and the State is not liable for any repayments. The Division also executes and records mortgage releases for Iowa real estate properties if more than 30 days have elapsed since payment in full was made by the respective mortgagor and certain requirements have been met in accordance with the related laws and administrative rules. The State of Iowa, and not the Authority or the Division, is liable for any claims arising as the result of releasing a mortgage in error.

State legislation which became effective July 1, 2000, authorized the Division to issue closing protection letters which may indemnify a person to whom a proposed title guaranty is to be issued against loss of settlement funds due to certain listed acts of the Division's named participating attorney or participating abstractor. Procedures and administrative rules are being developed for implementation of this new type of coverage in fiscal year 2004.

Chapter 455B of the *Code of Iowa* authorizes the Authority, jointly and in cooperation with the Iowa Department of Natural Resources (DNR), to undertake the creation, administration, and financing of the Iowa Water Pollution Control Works Financing Program (the Clean Water Program). This program was created by the State in 1988 to implement provisions of the Water Pollution Control Act of 1972, as amended by the Water Quality Act of 1987 (the Clean Water Act). The Clean Water Act and subsequent annual federal legislative appropriation bills authorize the U. S. Environmental Protection Agency (EPA) to make annual capitalization grants to states, through federal fiscal year 2002, for the purpose of establishing a water pollution revolving fund to be used in financing the construction of wastewater treatment facilities. The Authority is authorized and has issued revenue bonds to meet the 20% State match required to receive the grants and to provide additional funds to make loans to Iowa municipalities to finance all or part of the construction of wastewater treatment facilities. The bonds are payable solely from repayments of the loans and other assets and revenues pledged under the applicable bond resolution for the Clean Water Program. The obligations do not constitute a debt of the State nor of the Authority, and neither is liable for any repayments.

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(1) Organization and Summary of Significant Accounting Policies

Organization, Continued

Chapter 455B of the *Code of Iowa* also authorizes the Authority, jointly and in cooperation with DNR, to undertake the creation, administration, and financing of the Iowa Drinking Water Facilities Financing Program (the Drinking Water Program). This program was created by the State in 1997 and amended in 1998 to implement provisions of the Safe Drinking Water Act Amendments of 1996. Section 1452 of the Safe Drinking Water Act authorizes the EPA to make capitalization grants to states for the purpose of establishing a drinking water revolving fund to be used in financing the construction of drinking water facilities. The Authority is authorized and has issued revenue bonds to meet the 20% State match required to receive the grants and to provide additional funds to make loans to Iowa drinking water systems to finance all or part of the construction of drinking water facilities. The bonds are payable solely from repayments of the loans and other assets and revenues pledged under the applicable bond resolution for the Drinking Water Program. The obligations do not constitute a debt of the State nor of the Authority, and neither is liable for any repayments.

Chapter 455B of the *Code of Iowa* was amended by legislation which became effective July 1, 2002, to change the formal name of the Clean Water Program to the Iowa Water Pollution Control Works Financing Program and to include authorization of non-point source financing under the Clean Water Program. The Authority restructured the Clean Water Program and Drinking Water Program in December 2001 to include an Equity Fund for each program under a Master Trust Agreement from which loans may also be made in accordance with the provisions of the Clean Water Act and the Drinking Water Act. The Equity Funds are not pledged to the bonds outstanding under the respective programs. As part of the restructuring of both programs, the Authority issued bonds in December 2001 which consist of a Clean Water Program Portion and a Drinking Water Program Portion. While the bonds were issued on a combined basis for convenience and cost savings, the Clean Water Program and Drinking Water Program are separate and distinct programs in accordance with federal regulations.

Chapter 455G of the *Code of Iowa* authorizes the Iowa Comprehensive Petroleum Underground Storage Tank Fund (the UST Fund). The Authority is authorized and has issued revenue bonds for the purpose of funding the UST Fund. The bonds are payable solely from specified revenues and assets of the UST Fund which are pledged therefore, including portions of the State's motor vehicle use tax and annual storage tank management fee. These obligations do not constitute a debt of the State nor of the Authority, and neither is liable for any repayments. The UST Fund is administered by the UST Fund board, and its monies and accounts are held by the State Treasurer. Therefore, the UST Fund assets and bonds are not recorded in the Authority's financial statements. As of June 30, 2003, approximately \$68.8 million of these conduit debt obligations are outstanding, excluding accretion on capital appreciation serial bonds.

Chapter 34A of the *Code of Iowa* authorizes the Authority to issue bonds for the purpose of funding the Enhanced 911 Emergency Telephone Communications System (the E911 System). Bond proceeds are used to make loans to counties or joint E911 service boards throughout Iowa to implement the E911 System in their respective counties. The bonds are payable solely from repayments of the loans, which have been assigned without recourse to the trustee on behalf of bondholders, and from other amounts pledged therefore under the bond indentures. These obligations do not constitute a debt of the State nor of the Authority, and neither is liable for any repayments. Therefore, the loans and bonds are not recorded in the Authority's financial statements. As the remaining bonds outstanding of \$85,000 were paid off in September of 2002, none of these conduit debt obligations are outstanding.

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(1) Organization and Summary of Significant Accounting Policies

Organization, Continued

Chapter 16 of the *Code of Iowa* authorizes the Authority to issue bonds for the purpose of financing the construction or renovation of correctional facilities in the State. The Iowa Department of Corrections administers the State's correctional institutions and authorizes expenditures under the program. The bonds are payable solely from monies deposited in the Iowa Prison Infrastructure Fund maintained by the State Treasurer, currently required by State law to be the first \$9,500,000 of monies remitted to the State Treasurer each fiscal year from certain fees and fines collected by the clerks of the district court in criminal cases, investment earnings on monies in the Iowa Prison Infrastructure Fund, and from other amounts pledged therefore under the bond indenture. These obligations do not constitute a debt of the State nor of the Authority, and neither is liable for any repayments. Therefore, the bonds are not recorded in the Authority's financial statements. As of June 30, 2003, approximately \$73.3 million of these conduit debt obligations are outstanding.

The Authority is a component unit of the State. The Authority's financial statements are included in the State's comprehensive annual financial report.

Basis of Presentation

The financial statements have been prepared using the accrual method of accounting.

In accordance with the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies only Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989.

The Authority has adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, (Statements Nos. 34, 37, and 38) commencing with the year ended June 30, 2002. Adoption of Statements Nos. 34, 37 and 38 had no impact on the net assets of the Authority. The Authority's management has presented the Multi-Family Bond Program Funds, the Housing Assistance Program Funds, and the Title Guaranty Division Program Funds as major funds within the Authority's financial statements to assist users of the Authority's financial statements.

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(1) Organization and Summary of Significant Accounting Policies

Fund Accounting

The Authority's accounts are organized as major funds, each of which is a separate set of self-balancing accounts for the assets, liabilities, net assets, revenues, and expenses of the Authority's programs and General Fund.

The following describes the nature of the major funds currently maintained by the Authority:

- (a) General Fund – accounts for the investment of monies held within the fund, certain receipts from applicants and project sponsors, Participating Administrative Entity fees and Contract Administration fees received from HUD, transfers to or from various bond funds and accounts in accordance with applicable bond resolutions, and administrative functions of the Authority. After providing for sufficient restricted and unrestricted net assets, available monies may be used to finance loans or grants directly or be transferred to the Housing Assistance Program Funds.
- (b) Single Family Bond Program Funds – account for the proceeds from single family mortgage and housing bonds, the debt service requirements of the bonds, the investment of monies held within the bond funds and accounts, and the related whole mortgage loans for qualifying single family owner-occupied housing in Iowa, or Government National Mortgage Association (GNMA) and/or Federal National Mortgage Association (FNMA) mortgage-backed securities collateralized by such mortgage loans. Mortgage-backed securities are guaranteed as to timely payment of principal and interest by GNMA or FNMA. The 1988A and 1988B GNMA mortgage-backed securities bonds (the GNMA bonds) are not general obligations of the Authority, but are secured by and payable solely from revenues generated by the GNMA securities and by certain assets and revenues pledged under the bond resolution. All other single family mortgage and housing bonds are general obligations of the Authority, but are primarily payable from the mortgage loan repayments, or revenues generated by GNMA and FNMA securities, as applicable, and by certain assets and revenues pledged under the applicable bond resolutions. In addition, the Authority has a line of credit with a financial institution that permits the Authority to borrow and have outstanding through December 16, 2003, up to \$17,000,000 at a rate of interest indexed to the LIBOR rate, as specified in the credit agreement, for the purpose of current refunding for federal tax purposes certain of the Authority's outstanding single family mortgage and housing bonds maturing or being redeemed from mortgage loan prepayments or other available funds. The line of credit is not a general obligation of the Authority, but is secured by investments held by a custodial financial institution in an amount equal to or exceeding 102% of the outstanding advances as required by the credit agreement. At June 30, 2003, the Authority had approximately \$16.6 million of advances outstanding. Separate funds are maintained under the various bond series resolutions and credit agreement and, while the funds are combined into a Single Family Bond Program Funds group in the accompanying financial statements, the combined assets are available only in accordance with the applicable bond resolutions or credit agreement.

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(1) Organization and Summary of Significant Accounting Policies

Fund Accounting, Continued

- (c) Multi-Family Bond Program Funds – account for the proceeds from multi-family mortgage bonds, the debt service requirements of the bonds, the investment of monies held within the bond funds and accounts, and the related Federal Housing Administration (FHA) insured mortgage loans for multi-family housing in Iowa. The 1995A multi-family refunding bonds are not general obligations of the Authority, but are secured by and payable solely from revenues generated by the applicable mortgage loans and by certain assets and revenues pledged under the bond resolution. The 1978A multi-family bonds are general obligations of the Authority, but are primarily payable from certain assets and revenues pledged under the bond resolution. Separate funds are maintained under each bond resolution and, while the funds are combined into a Multi-Family Bond Program Funds group in the accompanying financial statements, the combined assets are available only in accordance with the applicable bond resolutions.
- (d) Clean Water Program Funds – account for the proceeds of Clean Water Program revenue bonds, the debt service requirements of the bonds, the investment of monies held within the bond funds and accounts and the Equity Fund, receipt of EPA capitalization grants, the related wastewater treatment facility loans to municipalities, and administrative costs of the program. The Authority is not obligated for the repayment of the bonds, which are secured by certain loan agreements and other assets and revenues pledged under the applicable bond resolution for the Clean Water Program. Separate funds are maintained for the Clean Water Program under each bond resolution and for the Equity Fund and, while the funds are combined into a Clean Water Program Funds group in the accompanying financial statements, the combined assets are available only in accordance with the applicable bond resolutions and the Master Trust Agreement.
- (e) Drinking Water Program Funds – accounts for the proceeds of Drinking Water Program revenue bonds, the debt service requirements of the bonds, the investment of monies held within the bond funds and accounts and the Equity Fund, receipt of EPA capitalization grants, the related drinking water facility loans to Iowa drinking water systems, and administrative costs of the program. The Authority is not obligated for the repayment of the bonds, which are secured by certain loan agreements and other assets and revenues pledged under the applicable bond resolution for the Drinking Water Program. Separate funds are maintained for the Drinking Water Program under each bond resolution and for the Equity Fund and, while the funds are combined into a Drinking Water Program Funds group in the accompanying financial statements, the combined assets are available only in accordance with the applicable bond resolutions and the Master Trust Agreement.
- (f) Title Guaranty Division Program Funds – accounts for the administrative costs of the Division, proceeds from title guaranty fees, and payments for claims made against the title guarantees. Monies in this fund, after providing for adequate reserves and operating expenses, are transferred to the Housing Assistance Program Funds.

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(1) Organization and Summary of Significant Accounting Policies

Fund Accounting, Continued

- (g) Housing Assistance Program Funds – account for federal grants or State appropriations received and monies transferred from the Division, all specifically restricted or committed for uses in accordance with applicable legislation or grant agreements, including loans or grants to homeless shelters or to for-profit and not-for-profit entities to improve the housing quality and availability for low income, handicapped, and elderly Iowans; to provide down payment or closing cost assistance to low income single family home buyers; or to pay initial commitment costs of the Authority's single family bond issues and the related individual mortgage loans. The Housing Assistance Program Funds also account for monies transferred from the Authority's General Fund net assets and utilized for the same or similar programs.

On August 1, 2001, net assets of the Iowa Housing Corporation (IHC) were transferred to the Authority and are included in the Housing Assistance Program Funds. IHC was created by the Authority in 1990 as a nonprofit organization to assist in meeting the housing needs of low and very low income Iowans and to foster and encourage public-private relationships. IHC has been dissolved subsequent to the transfer of net assets. The Authority received \$4,773,606 in investments, \$2,768,096 in mortgage loans and other loans (net of \$416,723 allowance for losses), and \$79,636 in accrued interest. In connection with the transfer of assets, the Authority also assumed certain contingent liabilities, obligations, and guarantees of the IHC totaling approximately \$3,155,700, with the provision that such obligations will be satisfied solely out of the assets transferred. On June 21, 2002, the Authority received an additional \$113,214 in cash. Loan repayments and other available funds are being used by the Authority to make loans for multi-family housing projects.

Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. These investments include the monies deposited in the State's interest-bearing pooled money funds, United States government and agency obligations, repurchase agreements, and various money market funds.

Investments

Under the various bond resolutions and State statutes, the Authority may invest in United States government and agency obligations directly or through repurchase agreements secured by such obligations, certificates of deposit in qualified financial institutions, pooled money funds with the State, and investment agreements with United States government agencies, qualified financial institutions, or qualified corporations.

Investments in debt and equity securities and external investment pools that have readily determinable fair values are recorded at fair value in the statement of net assets, with the change in the fair value of investments recorded in the statements of revenues, expenses, and changes in net assets.

Mortgage-Backed Securities

GNMA and FNMA mortgage-backed securities are adjusted for principal repayments and are recorded at fair value.

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(1) Organization and Summary of Significant Accounting Policies

Mortgage Loans Receivable

Mortgage loans receivable are secured by first liens on properties. The receivables are recorded at cost, adjusted for principal repayments.

Loans to Municipalities or Water Systems

Loans to municipalities or water systems are recorded at cost, adjusted for principal repayments. The loans are intended to be held for their average lives of 20 years. Certain loans are pledged as collateral for particular bonds outstanding. Each municipality or water system has entered into a loan agreement with the Authority, DNR, and the trustee and has evidenced its commitment to repay the loan by issuing a revenue obligation or a general obligation to the Authority, which is held by the trustee as security for the loan.

Other Loans

Other loans are recorded at cost, adjusted for principal repayments. The loans are intended to be held for their average lives of 10 to 20 years and are secured by second mortgages or other types of collateral or are unsecured.

Provision for Losses and Uncollected Interest

An evaluation of the Single Family Bond Program Funds' whole loan portfolio, any real estate owned, and any real estate in judgment is made in relation to applicable loan insurance or guaranties, and when it is determined that the investment in such assets is greater than the estimated net realizable value, a provision for losses is charged to earnings. Approximately \$0 and \$14,500 of the real estate owned (REO) and real estate in judgment (REJ) have been classified with mortgage loans receivable in the Single Family Bond Program Funds at June 30, 2003 and 2002, respectively. No allowance for losses was netted against mortgage loans receivable in the Single Family Bond Program Funds at June 30, 2003 and 2002. Accrued interest receivable on loans under the Single Family Mortgage Bonds, 1977 Series A and Single Family Mortgage Refunding Bonds, 1992 Series F programs which become more than three months in arrears is charged to income. Subsequent interest income is not recognized on such loans until collected or until the loans are three months or less in arrears. Accrued interest receivable on loans under the Single Family Housing Bonds, 1984 Issue A, and Single Family Housing Bonds, 1985 Issue A, are insured and, therefore, up to nine months of income is recognized even though a loan may be in arrears.

An evaluation of the possible credit losses related to the Housing Assistance Program Funds is made and a provision for losses is charged to earnings. An allowance for losses of approximately \$2.5 million and \$2.4 million was netted against other loans and \$314,767 and \$59,800 was netted against mortgage loans receivable at June 30, 2003 and 2002, respectively. Accrued interest on loans under the Housing Assistance Program Funds which become more than three months in arrears is charged to income. Subsequent interest income is not recognized on such loans until collected or until the loans are three months or less in arrears.

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(1) Organization and Summary of Significant Accounting Policies

Capital Assets

Furniture and equipment are recorded at cost and depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from three to ten years.

Leasehold improvements are recorded at cost and amortized using the straight-line method over the remaining term of the applicable lease.

Interfund Accounts

The Authority records interfund payables and receivables among its funds and accounts. These balances generally consist of accruals for administrative expenses paid by another fund, and transfers between funds or accounts of bond issues in accordance with applicable bond resolutions. These amounts are reimbursed or transferred within the subsequent fiscal year.

Bond Issuance Costs and Discounts

Bond issuance costs and discounts, and any loss on defeasance of refunded bonds, are deferred and amortized as an adjustment to interest expense over the life of the related bond issues, using the bonds outstanding method.

Reserves for Title Guaranty Division Losses

The reserve for title guaranty losses resulting from claims under guaranties of real property titles is estimated based on the Division's experience. The amount includes both case-basis evaluations and formula calculations and represents the estimated net cost of all unpaid losses, including losses incurred but not yet reported to the Division. An actuarial analysis was performed during fiscal year 2002. In the opinion of management, the reserve for title losses is adequate. Effective December 1, 2001, the Commissioner of Insurance for the State requires the Division's reserve to be 10% of net premiums plus known case reserves established by the Title Guaranty Division, less the release of net written premiums consistent with a 5% per year, 20 year release schedule, or a minimum of \$1,000,000. In addition, a separate reserve of \$1,000,000 is required by the Commissioner of Insurance as an initial reserve for closing protection letters.

Rebates Owed

The amount of investment income the Authority may earn on the proceeds of bonds issued in 1982 and after is limited by federal legislation. Earnings in excess of the allowable amount must be rebated to either the mortgagors or the United States Treasury. Such excess earnings exist at June 30, 2003 for the Single Family Housing Bonds, 1984 Issue A; Single Family Mortgage Bonds, 1997 Series A, B, and C; Single Family Mortgage Bonds, 1997 Series F, G, and H; Single Family Mortgage Bonds, 2000 Series A, B, and C; Single Family Mortgage Bonds, 2000 Series D, E, and F; Single Family Mortgage Bonds, 2000 Series G and H; Line of Credit; and Iowa State Revolving Fund Revenue Bonds, Series 2001, for both the Clean Water Program and the Drinking Water Program. Earnings in excess of the allowable amount are recorded in liabilities as rebates owed on the statement of net assets and are offset against investment income on the statement of revenues, expenses, and changes in net assets.

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(1) Organization and Summary of Significant Accounting Policies

Deferred Loan Fees

Initiation fees are received by the Authority at the time of origination of loans to municipalities or water systems made under the Clean Water Program Funds and Drinking Water Program Funds. The initiation fee is amortized over the life of the loan using the straight-line method, which does not materially differ from the interest method.

Commitment fees which were received by the Authority as a yield adjustment for the 1984; 1985; 1988A; 1988B; 1992A, B, and C; 1995C, D, and E; 2000D, E, and F; 2001A, B, and C; and 2002B, C, D, and E single family bond programs are amortized over the expected life of the related bonds using the bonds outstanding method. Fees relating to unfunded mortgages were recorded as income upon the expiration of the funding period.

Servicing acquisition fees received by the Authority for the 1988A; 1988B; 1992A, B, and C; 1995C, D, and E; 1997A, B, and C; 1997F, G, and H; 2000A, B, and C; 2000D, E, and F; 2001A, B, and C; and 2002B, C, D, and E single family bond programs as consideration for the mortgage loan servicers' participation in the programs are amortized over the expected life of the related bonds using the bonds outstanding method.

Deferred Compliance Monitoring Fees

Compliance monitoring fees are received by the Authority at the time of each Low Income Housing Tax Credit (LIHTC) project's completion. Such fees are used to defray the administrative expenses of the Authority in annually monitoring each project's continued compliance with federal regulations. These fees are amortized over the 15 year compliance period.

Net Assets

Restricted net assets represent those portions of total net assets set aside as required by the various bond resolutions for the benefit of the respective bond owners. Assets related to such restricted net assets include required reserve funds, loans or mortgage-backed securities, funds held for placement into loans or mortgage-backed securities, investments, and funds held for scheduled debt service. Restricted net assets also represent those portions of total net assets specifically restricted for uses in accordance with applicable legislation, including the Title Guaranty Division Program Fund, the Housing Improvement Fund and Housing Program Fund under the Housing Assistance Program Funds, and a portion of the General Fund relating to certain reserve funds released to the Authority's General Fund upon restructuring of the Single Family Housing Bonds, 1984 Issue A in March 1995.

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(1) Organization and Summary of Significant Accounting Policies

Net Assets, Continued

Restricted net assets also represent those portions of total net assets restricted for use by other agreements. The General Fund has a collateral agreement in place to secure planned borrowings from Fannie Mae under a credit facility. The restricted net assets balance for the line of credit included in the Single Family Bond Program Funds secures the outstanding advances made under the credit agreement. Net assets which are currently being utilized for direct loans under the General Fund and the General Fund Housing Assistance Fund and former Iowa Housing Corporation (IHC) assets under the Housing Assistance Program Funds are also restricted. The Multi-Family FAF Refunding Savings Fund under the Housing Assistance Program Funds is also restricted pursuant to an agreement with HUD. Certain loans and funds held under the Clean Water Program Funds and the Drinking Water Program Funds are restricted pursuant to the Master Trust Agreement.

Unrestricted General Fund net assets provide additional security for the Authority's general obligation bonds outstanding and coverage of the Authority's administrative costs. Unrestricted General Fund net assets and unrestricted net assets under the former IHC assets under the Housing Assistance Program Funds are available to meet commitments listed under "Commitments and Contingencies" and "Subsequent Events".

Revenue and Expense Recognition

The Authority records all revenues derived from loans, investments, title guaranty premiums, and federal programs as operating revenues since these revenues are generated from the Authority's daily operations and are needed to carry out its statutory purposes and to provide debt service coverage on its various bonds.

Economic Development Revenue Bond Fees

Economic development revenue bond fees include application and program participation fees received in conjunction with the Economic Development Loan Program. Such fees are used to defray legal and administrative expenses incurred in the programs. Application fees are recognized upon receipt of applications, while program participation fees are recognized upon final closing of the applicable loans.

Low Income Housing Tax Credit Fees

LIHTC fees received by the Authority are application, reservation, and compliance monitoring fees received from applicants who construct or rehabilitate low-income housing rental units. The applicant, if approved, receives a tax credit. The application and reservation fees are recognized in the period received and the compliance monitoring fees are recognized over the 15 year compliance period.

Title Guaranty Fees

The Division recognizes title guaranty premiums, which approximated \$5.8 million in 2003 and \$5.2 million in 2002, at the time of the issuance of the guaranty certificate. The Division currently purchases reinsurance coverage (the cost of which is offset against title guaranty fees) for title guaranty loss exposure in excess of \$250,000 per property. The gross amount of title guaranty coverage issued since inception at June 30, 2003 and 2002 was approximately \$33.8 billion and \$28 billion, respectively, of which approximately \$2.1 billion and \$1.9 billion, respectively, have been ceded to the reinsurer.

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(1) Organization and Summary of Significant Accounting Policies

Use of Estimates

Management of the Authority has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues, and expenses and the disclosure of contingent assets or liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Totals

The “totals” columns contain the totals of the similar accounts of the various funds. Due to restrictions created by federal and Iowa law and the various bond resolutions and agreements, the totaling of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided by federal and Iowa law and the bond resolutions or agreements.

(2) Cash, Cash Equivalents, and Investments

At June 30, 2003, the Authority’s cash balances of \$8,142,937 were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the *Code of Iowa*. Cash balances of \$5,553,571 were held by the State in pooled money funds. Cash equivalents included \$91,775,705 invested in open-end mutual funds; \$5,400,114 held by the State in pooled money funds; \$3,623,669 in collateralized repurchase agreements; and \$50,014,663 in federal agency discount notes.

At June 30, 2002, the Authority’s cash balances of \$3,587,475 were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the *Code of Iowa*. Cash balances of \$7,655,873 were held by the State in pooled money funds. Cash equivalents included \$123,140,153 invested in open-end mutual funds; \$5,078,613 held by the State in pooled money funds; and \$4,103,105 in collateralized repurchase agreements; and \$4,198,011 in federal agency discount notes.

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

Investments at June 30, 2003 and 2002 were comprised as follows:

2003								
	General Fund	Single Family Bond Program Funds	Multi-Family Bond Program Funds	Clean Water Program Funds	Drinking Water Program Funds	Fair value total	Face amount total	
United States government and agency obligations due:								
Within twelve months	\$ 8,363,408	1,995,621	1,029,891	—	—	11,388,920	11,226,215	
Beyond twelve months but within five years	25,948,306	—	4,798,683	—	—	30,746,989	30,258,000	
Beyond five years	7,069,201	4,108,630	17,456,392	—	—	28,634,223	29,974,561	
Repurchase agreements secured by United States government and agency obligations under repurchase agreements due:								
Within twelve months	—	17,287,199	—	10,212,225	3,582,514	31,081,938	31,081,938	
Beyond twelve months but within five years	—	—	—	10,647,956	3,332,976	13,980,932	13,980,932	
Beyond five years	—	19,944,279	11,774,503	58,664,500	26,997,500	117,380,782	117,380,782	
Unsecured interest-bearing investment agreements due:								
Within twelve months	—	128,858,789	120,170	241,105	40,539,485	169,759,549	169,759,548	
Beyond twelve months but within five years	200,000	366,768	—	6,589,248	14,129,911	21,285,927	21,285,926	
Beyond five years	—	1,200,269	479,707	—	6,060,576	7,740,552	7,740,552	
	\$ 41,580,915	173,761,555	35,659,346	86,355,034	94,642,962	431,999,812	432,688,454	
2002								
	General Fund	Single Family Bond Program Funds	Multi-Family Bond Program Funds	Housing Assistance Program Funds	Clean Water Program Funds	Drinking Water Program Funds	Fair value total	Face amount total
United States government and agency obligations due:								
Within twelve months	\$ 7,227,776	1,178,699	896,014	1,897,111	—	—	11,199,600	11,046,344
Beyond twelve months but within five years	5,612,830	—	4,646,699	—	—	—	10,259,529	10,017,000
Beyond five years	25,854,217	4,633,227	16,418,286	—	—	—	46,905,730	49,479,503
Repurchase agreements secured by United States government and agency obligations under repurchase agreements due:								
Within twelve months	—	19,641,556	—	—	20,755,012	3,263,053	43,659,621	43,659,621
Beyond twelve months but within five years	—	—	—	—	22,446,549	16,331,620	38,778,169	38,778,169
Beyond five years	—	18,412,233	10,655,158	—	52,563,500	27,757,500	109,388,391	109,388,391
Unsecured interest-bearing investment agreements due:								
Within twelve months	—	35,048,511	163,703	—	—	—	35,212,214	35,212,214
Beyond twelve months but within five years	—	45,019,304	—	—	—	—	45,019,304	45,019,304
Beyond five years	—	3,879,930	357,732	50,000	—	—	4,287,662	4,287,662
	\$ 38,694,823	127,813,460	33,137,592	1,947,111	95,765,061	47,352,173	344,710,220	346,888,208

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(2) Cash, Cash Equivalents, and Investments

The Authority's investments are further categorized to give an indication of the level of custodial credit risk assumed by the entity. Category 1 includes investments that are insured, registered, or held by the Authority or its agent in the Authority's name. Category 2 includes uninsured or unregistered investments held by the counterparty's trust or safekeeping department or its agent in the Authority's name.

The General Fund investments and a \$17,198,864 investment securing the line of credit under the Single Family Bond Program Funds are Category 1 investments. All other investments held by the Authority in its various funds that are subject to custodial credit risk categorization are Category 2 investments. In addition, at June 30, 2003, 65% of unsecured investment agreements were with three investment providers.

(3) Loans Receivable

Mortgage loans receivable under the General Fund (except for three first mortgage loan receivable made under the Iowa Main Street Loan Program which amounted to \$523,284 and \$229,078 at June 30, 2003 and 2002, respectively, and bearing interest rates ranging from 6.5% to 7.25%), the Single Family Bond Program Funds, and Multi-Family Bond Program Funds have been endorsed for insurance or guaranteed by the FHA, the Veterans Administration, or a private mortgage insurance company, or the loan amount is 75% or less of the appraised value of the security property. Interest rates on the loans range from 5.125% to 12.53%. Certain single family mortgage loans are forgivable when all of the applicable bonds have been paid in full.

Mortgage loans receivable and other loans under the Housing Assistance Program Funds have interest rates from 0% to 6% and are uninsured. A portion of these loans have a provision in which part of the principal balance will be forgiven each year if the borrower is in compliance with certain terms and conditions of the loan agreement. The outstanding principal balance as of June 30, 2003 and 2002, on loans which were 50% forgivable was \$444,460 and \$500,018, respectively, and \$176,100 and \$58,400, respectively, on loans which were 100% forgivable. The principal forgiven included in grant expense was \$35,079 and \$42,379, during the years ended June 30, 2003 and 2002, respectively. Other loans under the General Fund consist of one uninsured loan per year under the Iowa Main Street Loan Program which amounted to \$212,693 and \$90,233 at June 30, 2003 and 2002, respectively, and bore interest rates of 6.25% and 7.50%, respectively.

Loans to municipalities or water systems under the Clean Water Program and Drinking Water Program bear interest from 3.00% to 5.02%. The participant enters into a loan agreement with the Authority, DNR, and the trustee and evidences its obligation either with a revenue obligation payable solely from the net revenues of the sewage or drinking water system or a general obligation of the participant payable from *ad valorem* taxes of the system.

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(4) Bonds and Notes Payable

Bonds payable at June 30, 2003 and 2002 were as follows:

	<u>2003</u>	<u>2002</u>
\$6,000,000 Fannie Mae Credit Facility, October 19, 2001 expiring on October 1, 2004 at an interest rate based on three month LIBOR plus 100 basis points (see note 7)		
\$315,000 drawn for single family construction during fiscal year 2003	\$ 215,000	—
\$1,720,000 drawn for multifamily construction during fiscal year 2003	1,720,000	—
These are the first and only draws against the credit facility		
Total housing bonds	<u>\$ 1,935,000</u>	<u>—</u>
\$42,605,000 Single Family Mortgage Bonds, 1977 Series A, August 4, 1977 – \$25,600,000 due serially from August 1, 1979 to 1994 at interest rates of 4.40% to 8.00% and \$17,005,000 term bonds due August 1, 2008 at 5.875% interest	6,165,000	7,440,000
Less unamortized bond issuance cost and discount	<u>4,424</u>	<u>6,355</u>
	<u>6,160,576</u>	<u>7,433,645</u>
\$200,000,000 Single Family Housing Bonds, 1984 Issue A, September 26, 1984 – \$50,760,000 due serially from September 1, 1986 to 1998 at interest rates of 7.25% to 10.50%; \$143,030,000 term bonds due September 1, 2001 to 2009 at interest rates of 10.625% to 10.75%; and \$6,210,000 capital accumulator bonds due September 1, 2016 which accumulate capital at 11.637% compounded semiannually	1,239,786	2,632,520
Less unamortized bond issuance cost and discount	<u>6,210</u>	<u>16,311</u>
	<u>1,233,576</u>	<u>2,616,209</u>
\$50,000,000 Single Family Housing Bonds, 1985 Issue A, October 10, 1985 – \$22,789,064 due serially from October 1, 1987 to 2000 at interest rates of 6.50% to 9.375%; \$20,000,000 term bonds due October 1, 2011 at 8.50% and \$7,210,936 future income growth bonds due October 1, 2016 which accumulate capital at 10.25% compounded semiannually until October 1, 1997, after which semiannual payment of interest at 10.25% on the accreted value commences	—	1,245,000
Less unamortized bond issuance cost and discount	<u>—</u>	<u>38,093</u>
	<u>—</u>	<u>1,206,907</u>
\$30,035,000 Single Family Mortgage Revenue Bonds, 1988 Issue A (GNMA Mortgage-Backed Securities Program), May 5, 1988 – \$4,350,000 due serially from May 1, 1990 to 2000 at interest rates from 5.70% to 7.80%; \$9,850,000 term bonds due May 1, 2017 and \$10,950,000 term bonds due November 1, 2017, both at 6.850% until November 1, 1988 and 8.225% thereafter; and \$4,885,000 term bonds due November 1, 2019 at 8.50%	180,000	1,150,000
Less unamortized bond issuance cost and discount	<u>1,405</u>	<u>9,855</u>
	<u>178,595</u>	<u>1,140,145</u>
\$52,550,000 Single Family Mortgage Revenue Bonds, 1988 Issue B (GNMA Mortgage-Backed Securities Program), October 19, 1988 – \$7,285,000 due serially from November 1, 1990 to 2000 at interest rates from 6.20% to 7.50%; \$4,565,000 term bonds due November 1, 2004 at 7.40%; \$14,550,000 term bonds due November 1, 2012 at 7.90%; and \$26,150,000 term bonds due May 1, 2020 at 8.25%	340,000	2,420,000
Less unamortized bond issuance cost and discount	<u>2,285</u>	<u>18,214</u>
	<u>337,715</u>	<u>2,401,786</u>

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Notes to Financial Statements

June 30, 2003 and 2002

(4) Bonds and Notes Payable

	2003	2002
\$40,000,000 Single Family Mortgage Bonds (Mortgage-Backed Securities Program):		
\$15,145,000 1992 Series A, June 25, 1992 - \$7,355,000 due serially from January 1, 1995 to July 1, 2006 at interest rates from 4.875% to 6.50% and \$7,790,000 term bonds due July 1, 2013 at 6.10%	\$ —	300,000
\$17,920,000 1992 Series B, June 25, 1992 - term bonds due July 1, 2024 at 6.95%	—	1,040,000
\$6,935,000 1992 Series C, June 25, 1992 - term bonds due July 1, 2017 at 6.90%	—	405,000
	<u>—</u>	<u>1,745,000</u>
\$44,900,000 Single Family Mortgage Bonds (Mortgage-Backed Securities Program):		
\$23,640,000 1995 Series C, April 5, 1995 - \$2,235,000 due serially from January 1, 2005 to July 1, 2007 at interest rates from 5.700% to 5.875%; \$3,465,000 term bonds due July 1, 2014 at 6.35%; \$8,035,000 term bonds due July 1, 2019 at 6.40%; and \$9,905,000 term bonds due January 1, 2024 at 6.45%	11,490,000	14,650,000
\$8,300,000 1995 Series D, April 5, 1995 - \$3,995,000 due serially from January 1, 1999 to January 1, 2005 at interest rates from 5.30% to 5.85% and \$4,305,000 term bonds due January 1, 2012 at 6.10%	570,000	1,115,000
\$12,960,000 1995 Series E, April 5, 1995 - term bonds due July 1, 2028 at 6.65%	6,395,000	8,155,000
	<u>18,455,000</u>	<u>23,920,000</u>
Less unamortized bond issuance cost and discount	183,472	244,897
	<u>18,271,528</u>	<u>23,675,103</u>
\$30,000,000 Single Family Mortgage Bonds (Mortgage-Backed Securities Program):		
\$11,210,000 1997 Series A, February 26, 1997 - \$5,120,000 term bonds due July 1, 2016 at 5.80% and \$6,090,000 term bonds due July 1, 2025 at 5.50%	7,460,000	8,750,000
\$9,790,000 1997 Series B, February 26, 1997 - \$4,590,000 due serially from January 1, 2001 to July 1, 2009 at interest rates from 4.55% to 5.50% and \$5,200,000 term bonds due January 1, 2021 at 5.30%	2,315,000	3,585,000
\$9,000,000 1997 Series C, February 26, 1997 - \$4,000,000 term bonds due January 1, 2028 at 6.10% and \$5,000,000 term bonds due July 1, 2030 at 6.10%	6,040,000	7,015,000
	<u>15,815,000</u>	<u>19,350,000</u>
Less unamortized bond issuance cost and discount	157,116	199,880
	<u>15,657,884</u>	<u>19,150,120</u>
\$49,220,000 Single Family Mortgage Bonds (Mortgage-Backed Securities Program):		
\$20,535,000 1997 Series F, August 21, 1997 - \$8,025,000 term bonds due January 1, 2016 at 5.55% and \$12,510,000 term bonds due January 1, 2027 at 5.70%	16,355,000	18,070,000
\$18,425,000 1997 Series G, August 21, 1997 - \$9,390,000 due serially from July 1, 2000 to July 1, 2009 at interest rates from 4.30% to 5.30% and \$9,035,000 term bonds due January 1, 2021 at 4.95%	8,455,000	11,895,000
\$10,260,000 1997 Series H, August 21, 1997 - \$2,440,000 term bonds due January 1, 2028 at 5.85% and \$7,820,000 term bonds due July 1, 2030 at 5.85%	8,165,000	9,025,000
	<u>32,975,000</u>	<u>38,990,000</u>
Less unamortized bond issuance costs and discount	270,359	335,258
	<u>32,704,641</u>	<u>38,654,742</u>

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Notes to Financial Statements

June 30, 2003 and 2002

(4) Bonds and Notes Payable

	2003	2002
\$25,000,000 Single Family Mortgage Bonds (Mortgage-Backed Securities Program):		
\$4,505,000 2000 Series A, February 22, 2000 – \$1,530,000 due serially from July 1, 2011 to 2013 at interest rates from 5.80% to 6.00% and \$2,975,000 term bonds due July 1, 2018 at 6.25%	\$ 3,955,000	4,445,000
\$5,595,000 2000 Series B, February 22, 2000 – \$3,125,000 due serially from July 1, 2002 to 2010 at interest rates from 4.80% to 5.85% and \$2,470,000 term bonds due January 1, 2021 at 6.40%	4,790,000	5,525,000
\$14,900,000 2000 Series C, February 22, 2000 – \$6,080,000 term bonds due July 1, 2026 at 5.70% and \$8,820,000 term bonds due January 1, 2032 at 6.45%	12,600,000	14,375,000
	21,345,000	24,345,000
Less unamortized bond issuance cost and discount	219,153	263,580
	21,125,847	24,081,420
\$67,115,000 Single Family Mortgage Bonds (Mortgage-Backed Securities Program):		
\$9,580,000 2000 Series D, June 14, 2000 – \$3,205,000 due serially from July 1, 2007 to 2010 at interest rates from 5.65% to 5.80% and \$6,375,000 term bonds due July 1, 2016 at 6.10%	7,710,000	8,930,000
\$29,505,000 2000 Series E, June 14, 2000 – \$6,890,000 due serially from July 1, 2001 to 2008 at interest rates from 5.00% to 5.90%; \$20,530,000 term bonds due January 1, 2021 at 6.00%; and \$2,085,000 term bonds due July 1, 2022 at 6.35%	23,145,000	26,835,000
\$28,030,000 2000 Series F, June 14, 2000 – term bonds due July 1, 2032 at 6.40%	22,565,000	26,145,000
	53,420,000	61,910,000
Less unamortized bond issuance cost and discount	487,746	593,062
Less unamortized loss on defeasance of refunded bonds	146,395	199,831
	52,785,859	61,117,107
\$32,000,000 Single Family Mortgage Bonds (Mortgage-Backed Securities Program):		
\$22,000,000 2000 Series G, December 12, 2000 – \$590,000 due serially from July 1, 2011 to 2012 at interest rates from 5.30% to 5.40%; \$3,095,000 term bonds due July 1, 2018 at 5.80%; and \$18,315,000 term bonds due January 1, 2033 at 5.90%	22,000,000	22,000,000
\$10,000,000 2000 Series H (Taxable), December 12, 2000 – term bonds due July 1, 2029 at 7.19%	9,180,000	10,000,000
	31,180,000	32,000,000
Less unamortized bond issuance cost and discount	330,935	362,428
	30,849,065	31,637,572

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Notes to Financial Statements

June 30, 2003 and 2002

(4) Bonds and Notes Payable

	2003	2002
\$38,835,000 Single Family Mortgage Bonds (Mortgage-Backed Securities Program):		
\$11,585,000 2001 Series A, July 26, 2001 – \$6,905,000 due serially from July 1, 2002 to January 1, 2011 at interest rates from 3.10% to 4.60%; and \$4,680,000 term bonds due July 1, 2016 at 5.10%	\$ 10,100,000	11,515,000
\$11,805,000 2001 Series B, July 26, 2001 – \$1,495,000 due serially on July 1, 2011 to July 1, 2012 at interest rates of 5.00% and 5.10%; and \$10,310,000 term bonds due July 1, 2023 at 4.70%	11,040,000	11,680,000
\$15,445,000 2001 Series C, July 26, 2001 – term bonds due July 1, 2033 at 5.50%	14,755,000	15,430,000
	35,895,000	38,625,000
Less unamortized bond issuance cost and discount	365,846	419,965
Less unamortized loss on defeasance of refunded bonds	172,436	203,912
	35,356,718	38,001,123
 \$25,000,000 Single Family Mortgage Bonds, 2001 Series D (Mortgage-Backed Securities Program), October 30, 2001 – \$3,950,000 due serially from July 1, 2004 to 2013 at interest rates from 3.25% to 4.85%; \$3,700,000 term bonds due July 1, 2021 at 5.25%; \$6,250,000 term bonds due July 1, 2033 at 4.30%; and \$11,100,000 term bonds due January 1, 2034 at 5.375%		
	24,815,000	25,000,000
Less unamortized bond issuance cost and discount	284,015	310,534
	24,530,985	24,689,466
 \$35,000,000 Single Family Mortgage Bonds, 2002 Series A (Mortgage-Backed Securities Program), March 21, 2002 – \$6,500,000 due serially from July 1, 2004 to 2014 at interest rates from 2.90% to 5.15%; \$1,665,000 term bonds due January 1, 2022 at 5.30%; \$3,930,000 term bonds due July 1, 2022 at 5.30%; \$5,190,000 term bonds due July 1, 2027 at 5.30%; \$4,565,000 term bonds due July 1, 2032 at 5.40%; \$8,750,000 term bonds due January 1, 2033 at 4.45%; and \$4,400,000 term bonds due July 1, 2033 at 5.40%		
	34,885,000	35,000,000
Less unamortized bond issuance cost and discount	381,393	418,106
	34,503,607	34,581,894
 \$61,230,000 Single Family Mortgage Bonds (Mortgage-Backed Securities Program):		
\$10,925,000 2002 Series B, June 27, 2002 – \$10,925,000 due serially from July 1, 2003 to 2014 at interest rates from 2.00% to 4.85%	10,515,000	10,925,000
\$20,915,000 2002 Series C, June 27, 2002 – \$6,425,000 term bonds due July 1, 2021 at 5.50%; \$5,240,000 term bonds due January 1, 2022 at 5.50%; and \$9,250,000 term bonds due July 1, 2024 at 4.50%	20,370,000	20,915,000
\$19,390,000 2002 Series D, June 27, 2002 – \$7,050,000 term bonds due January 1, 2028 at 5.50%; \$6,000,000 term bonds due July 1, 2032 at 5.60%; and \$6,340,000 term bonds due July 1, 2033 at 5.60%	19,155,000	19,390,000
\$10,000,000 2002 Series E (Taxable), June 27, 2002 – term bonds due January 1, 2033 at 5.71%	9,965,000	10,000,000
	60,005,000	61,230,000
Less unamortized bond issuance cost and discount	618,827	688,811
Less unamortized loss on defeasance of refunded bonds	348,277	410,189
	59,037,896	60,131,000

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(4) Bonds and Notes Payable

	2003	2002
\$45,000,000 Single Family Mortgage Bonds (Mortgage-Backed Securities Program):		
\$3,435,000 2002 Series F, October 30, 2002 – \$3,435,000 due serially from July 1, 2004 to 2010 at interest rates from 1.75% to 3.45%	\$ 3,435,000	—
\$6,630,000 2002 Series G, October 30, 2002 – \$1,310,000 due serially from July 1, 2010 to 2013 at interest rates from 3.75% to 4.10%; \$4,685,000 term bonds due January 1, 2023 at 4.90%; and \$635,000 term bonds due July 1, 2024 at 4.90%	6,630,000	—
\$23,685,000 2002 Series H, October 30, 2002 – \$7,855,000 term bonds due January 1, 2031 at 5.00%; \$10,000,000 term bonds due July 1, 2033 at 3.50%; and \$5,830,000 term bonds due July 1, 2034 at 5.00%.	23,685,000	—
\$11,250,000 2002 Series I (variable rate), October 30, 2002 – term bonds due July 1, 2032.	11,250,000	—
	45,000,000	—
Less unamortized bond issuance cost and discount	497,610	—
	44,502,390	—
\$45,000,000 Single Family Mortgage Bonds (Mortgage-Backed Securities Program):		
\$35,000,000 2003 Series A, March 19, 2003 – \$5,175,000 due serially from January 1, 2006 to July 1, 2016 at interest rates from 2.25% to 4.75%; \$3,675,000 term bonds due July 1, 2022 at 5%; \$1,200,000 term bonds due January 1, 2023 at 5%; \$8,950,000 term bonds due January 1, 2034 at 5.125%; \$7,000,000 term bonds due July 1, 2035 at 4.40%; \$9,000,000 term bonds due July 1, 2035 at 5.125%;	35,000,000	—
\$10,000,000 2003 Series B (taxable LIBOR Floater), March 19, 2003 – term bonds due July 1, 2034.	10,000,000	—
	45,000,000	—
Less unamortized bond issuance cost and net premium	190,419	—
Less unamortized interest rate corridor (cap) cost	327,711	—
	44,481,870	—
\$50,000,000 Single Family Mortgage Bonds (Mortgage-Backed Securities Program):		
\$3,750,000 2003 Series C, June 25, 2003 – \$3,750,000 due serially from July 1, 2009 to January 1, 2015 at interest rates from 2.60% to 3.75%	3,750,000	—
\$13,100,000 2003 Series D, June 25, 2003 – \$2,830,000 due serially from January 1, 2005 to 2010 at interest rates from 1.60% to 3.10%; \$10,270,000 term bonds due January 1, 2025 at 4.25%; and	13,100,000	—
\$3,150,000 2003 Series E, June 25, 2003 - \$820,000 serial due July 1, 2033 at 4.60%; \$2,330,000 term bonds due January 1, 2034 at 4.60%;	3,150,000	—
\$20,000,000 2003 Series F, June 25, 2003 – Variable rate term bonds due January 1, 2033;	20,000,000	—
\$10,000,000 2003 Series G (taxable LIBOR Floater), June 25, 2003 – term bonds due July 1, 2025.	10,000,000	—
	50,000,000	—
Less unamortized bond issuance cost and net premium	72,275	—
Less unamortized interest rate corridor (cap) cost	340,799	—
	49,731,476	—

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(4) Bonds and Notes Payable

	2003	2002
\$20,000,000 Line of Credit, December 17, 2002:		
Expires December 16, 2003 and December 17, 2002 at a rate of interest indexed to the LIBOR rate on the date of advance with interest paid monthly	\$ 16,634,662	18,458,201
Less unamortized issuance cost	12,680	10,468
	16,621,982	18,447,733
Total single family mortgage bonds	\$ 488,072,210	390,710,972
\$28,130,000 Multi-Family Bonds (FHA Insured Mortgage Loans), 1978 Series A, March 30, 1978 – \$6,080,000 due serially from April 1, 1981 to 1998 at interest rates of 4.25% to 5.50% and \$22,050,000 term bonds due April 1, 2021 at 6.00%	17,695,000	18,205,000
Less unamortized bond issuance cost and discount	346,987	380,808
	17,348,013	17,824,192
\$8,990,000 Multi-Family Housing Refunding Revenue Bonds, 1995 Series A, September 29, 1995 – \$2,080,000 due serially from September 1, 1996 to 2005 at interest rates of 3.95% to 5.20%; \$2,740,000 term bonds due September 1, 2015 at 6.20%; and \$4,170,000 term bonds due March 1, 2024 at 6.30%	4,310,000	5,640,000
Less unamortized bond issuance cost and discount	113,720	155,818
	4,196,280	5,484,182
Total multi-family mortgage bonds	\$ 21,544,293	23,308,374
\$233,225,000 Iowa State Revolving Fund Revenue Bonds, Series 2001, December 20, 2001 – \$210,395,000 due serially from August 1, 2002 to 2014 at interest rates of 4.00% to 5.50%; \$5,995,000 term bonds due August 1, 2016 at 5.50%; \$6,230,000 term bonds due August 1, 2018 at 5.50%; \$6,525,000 term bonds due August 1, 2020 at 5.00%; and \$4,080,000 term bonds due August 1, 2023 at 5.00%		
Clean Water Program Portion	160,795,000	176,150,000
Add unamortized bond issuance cost and net premium	6,719,870	7,965,281
Less unamortized loss on defeasance of refunded bonds	7,500,797	8,897,239
	160,014,073	175,218,042
Drinking Water Program Portion	55,515,000	57,075,000
Add unamortized bond issuance cost and net premium	1,709,963	1,898,688
Less unamortized loss on defeasance of refunded bonds	1,019,412	1,134,630
	56,205,551	57,839,058
\$56,100,000 Iowa State Revolving Fund Revenue Bonds, Series 2003, January 23, 2003 – \$56,000,000 due serially from August 1, 2003 to 2024 at interest rates of 2.00% to 4.75%.		
Clean Water Program Portion	3,350,000	—
Less unamortized bond issuance cost and net premium	36,511	—
	3,313,489	—
Drinking Water Program Portion	52,750,000	—
Less unamortized bond issuance cost and net premium	249,353	—
	52,500,647	—
Total Clean Water Portion	\$ 163,327,562	175,218,042
Total Drinking Water Portion	\$ 108,706,198	57,839,058

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

(4) Bonds and Notes Payable

The following summarizes the net bonds payable activity for the Authority's major funds for the years ended June 30, 2003 and 2002.

	<u>June 30, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2003</u>
Single Family Bond Program Funds	\$ 390,710,972	158,243,828	60,882,590	488,072,210
Multi-Family Bond Program Funds	23,308,374	—	1,764,081	21,544,293
Clean Water Program Funds	175,218,042	3,324,460	15,214,940	163,327,562
Drinking Water Program Funds	57,839,058	52,696,687	1,829,547	108,706,198
General Fund Note Payable	—	315,000	100,000	215,000
Housing Assistance Note Payable	—	1,720,000	—	1,720,000
	<u>\$ 647,076,446</u>	<u>216,299,975</u>	<u>79,791,158</u>	<u>783,585,263</u>

	<u>June 30, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2002</u>
Single Family Bond Program Funds	\$ 289,683,315	172,601,947	71,574,290	390,710,972
Multi-Family Bond Program Funds	25,980,168	—	2,671,794	23,308,374
Clean Water Program Funds	192,950,919	185,214,162	202,947,039	175,218,042
Drinking Water Program Funds	36,348,560	59,201,172	37,710,674	57,839,058
	<u>\$ 544,962,962</u>	<u>417,017,281</u>	<u>314,903,797</u>	<u>647,076,446</u>

A summary of scheduled bond maturities follows:

<u>Year ending June 30</u>	<u>Single Family Mortgage and Housing Bonds</u>	<u>Multi-Family Mortgage Bonds</u>	<u>Clean Water Program Bonds</u>	<u>Drinking Water Program Bonds</u>	<u>Totals</u>
2004	\$ 4,695,000	710,000	12,260,000	1,520,000	19,185,000
2005	7,200,000	740,000	12,755,000	3,145,000	23,840,000
2006	8,430,000	790,000	13,180,000	4,380,000	26,780,000
2007	8,965,000	835,000	14,075,000	4,655,000	28,530,000
2008	9,095,000	885,000	14,440,000	4,955,000	29,375,000
2009 – 2013	51,671,640	5,315,000	75,735,000	26,950,000	159,671,640
2014 – 2018	67,718,393	7,160,000	21,315,000	28,865,000	125,058,393
2019 – 2023	82,090,000	5,260,000	385,000	28,450,000	116,185,000
2024 – 2028	104,315,000	310,000	—	5,345,000	109,970,000
2029 – 2033	116,005,000	—	—	—	116,005,000
2034 – 2038	18,995,000	—	—	—	18,995,000

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A summary of scheduled bond interest follows:

Year ending June 30	Single Family Mortgage and Housing Bonds	Multi-Family Mortgage Bonds	Clean Water Program Bonds	Drinking Water Program Bonds	Totals
2004	\$ 22,845,166	1,326,070	8,140,634	5,005,267	37,317,137
2005	23,681,012	1,285,535	7,528,153	4,857,386	37,352,086
2006	23,341,185	1,241,870	6,896,515	4,708,186	36,187,756
2007	22,963,641	1,194,360	6,252,415	4,543,861	34,954,277
2008	22,559,040	1,143,865	5,520,465	4,356,574	33,579,944
2009 – 2013	106,322,581	4,848,035	15,842,781	18,477,918	145,491,315
2014 – 2018	92,193,329	3,031,285	1,117,603	11,981,704	108,323,921
2019 – 2023	73,957,355	782,145	36,205	4,564,862	79,340,567
2024 – 2028	50,318,802	13,860	—	212,481	50,545,143
2029 – 2033	20,625,159	—	—	—	20,625,159
2034 – 2038	926,714	—	—	—	926,714

Under the bond resolutions, the Authority has the option to redeem bonds at initial prices ranging from 103% to 100% and subsequently at prices declining to par. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for 10 years; however, certain special redemptions, as governed by the bond resolutions, are permitted prior to such time. Term bonds are subject to mandatory redemptions, without premium, through sinking fund installments subsequent to the scheduled completion of retirement of the serial bonds of the same issue. The schedule of bond maturities includes the sinking fund installments for the term bonds. Capital accumulator bonds and future income growth bonds are included in the schedule of bond maturities at their respective values at the time of maturity or sinking fund installment. Bond maturities and interest rates are based on those in effect immediately following the redemptions and maturities occurring on July 1, 2003.

The bonds are secured, as described in the applicable bond resolution, by the revenues, monies, investments, loans, and other assets in the funds and accounts established by the respective bond resolutions. The line of credit under the Single Family Bond Program Funds is secured by investments held by a custodial financial institution in an amount equal to or exceeding 102% of the outstanding advances as required by the credit agreement. The line of credit under the General Fund is secured by investments held by a custodial financial institution in an amount no less than \$2 million and is a general obligation of the Authority.

The Single Family Mortgage Bond Resolutions, the Single Family Housing Bond Resolutions, and the Multi-Family Bond Resolution contain covenants which require the Authority to make payments of principal and interest from amounts available in the General Fund should deficiencies occur in the funds established for such payments by the respective bond resolutions. The Single Family Mortgage Revenue Bond Resolution, the credit agreement under the Single Family Bond Program Funds, the Multi-Family Housing Refunding Revenue Bond Resolution, and the bond resolutions for the Clean Water Program Funds and Drinking Water Program Funds do not contain these covenants.

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The Fannie Mae Credit Facility used for single and multifamily construction programs was entered into October 19, 2001 and expires October 1, 2004. The Authority pays interest quarterly based on 3-month LIBOR plus 100 basis points.

Defeased Debt

On July 26, 2001, the Authority issued Single Family Mortgage Bonds, 2001 Series A, B, and C, in the par amount of \$38,835,000 with interest rates of 3.10% to 5.10% in part to refund and defease \$8,810,000 of Single Family Mortgage Bonds, 1991 Series A, A-1, B, and B-1, with interest rates of 5.20% to 7.45%. Proceeds of \$8,810,000 from the issuance of the 2001 Series A, B, and C bonds along with \$552,142 of 1991 Series A, A-1, B, and B-1 funds (consisting of loan prepayments and excess revenues) were used to purchase U.S. government securities, which were deposited in an irrevocable trust with an escrow agent to provide for the September 4, 2001 redemption of all remaining 1991 Series A, A-1, B, and B-1 bonds. The Authority, in effect, decreased its future aggregate debt service payments by approximately \$2,856,000 and obtained a present value savings (difference between the present value of the debt service payments on the old and new debt) of approximately \$2,011,000.

On December 20, 2001, the Authority issued Iowa State Revolving Fund Revenue Bonds, Series 2001, in the par amount of \$233,225,000 with interest rates of 4.0% to 5.50% in part to refund and defease \$23,350,000 of Iowa State Revolving Fund Revenue Bonds, Combined Series 1991; \$23,390,000 of Iowa State Revolving Fund Revenue Bonds, Combined Series 1992; \$30,005,000 of Iowa State Revolving Fund Revenue Bonds, Combined Series 1993; \$17,965,000 of Iowa State Revolving Fund Revenue Bonds, Combined Series 1994; \$17,000,000 of Iowa State Revolving Fund Revenue Bonds, Combined Series 1995; \$29,320,000 of Iowa State Revolving Fund Revenue Bonds, Combined Series 1996; \$9,430,000 of Iowa State Revolving Fund Revenue Bonds, Combined Series 1997; \$21,040,000 of Iowa State Revolving Fund Revenue Bonds, Combined Series 1998; \$3,700,000 of Clean Water State Revolving Revenue Subordinated Bond Anticipation Notes, Series 2001; \$31,595,000 of Drinking Water Program Revenue Bonds, Combined Series 1999; and \$5,565,000 of Drinking Water Program Revenue Bonds, 2000 Series A (collectively the "Refunded Bonds") with overall interest rates of 2.5% to 6.25%. Proceeds of \$168,073,343 from the issuance of the Series 2001 bonds, along with \$53,028,591 of Refunded Bonds funds (consisting of Federal Capitalization Grants and revenues) were used to purchase U.S. government securities, which were deposited in an irrevocable trust with an escrow agent to provide for the February 1, 2002 through February 1, 2011 redemption of all Refunded Bonds.

Although the refunding resulted in the recognition of an accounting loss of \$9,699,933 in the Clean Water Program Funds and \$1,197,724 in the Drinking Water Program Funds for the year ended June 30, 2003, the Authority in effect decreased its future debt service payments by approximately \$82,813,100 in the Clean Water Program Funds and \$14,924,200 in the Drinking Water Program Funds and obtained an aggregate present value savings (difference between the present value of the debt service payments on the old and new debt) of approximately \$7,732,000. The Iowa State Revolving Fund Revenue Bonds, Combined Series 1993-R under the Clean Water Program Funds were defeased in full and not refunded, resulting in a loss on redemption of approximately \$1,095,600 but decreased its future aggregate debt service payments by approximately \$27,538,400.

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(4) Bonds Payable

Defeased Debt, Continued

On June 27, 2002, the Authority issued Single Family Mortgage Bonds, 2002 Series B, C, D, and E, in the par amount of \$61,230,000 with interest rates of 2.0% to 5.71% in part to refund and defease \$15,805,000 of Single Family Mortgage Bonds, 1992 Series A, B, and C, with interest rates of 4.875% to 6.90%. Proceeds of \$16,211,400 from the issuance of the 2002 Series B, C, D, and E bonds were used to purchase U.S. government securities, which were deposited in an irrevocable trust with an escrow agent to provide for the August 1, 2002 redemption of all remaining 1992 Series A, B, and C bonds. On July 1, 2002, 1992 Series A, B, and C Bonds in the amount of \$165,000 matured and \$1,580,000 bonds were called for redemption with loan prepayments and excess revenues in the normal course. The Authority, in effect, decreased its future aggregate debt service payments by approximately \$3,757,000 and obtained a present value savings (difference between the present value of the debt service payments on the old and new debt) of approximately \$2,915,000.

(5) Disclosure for Derivatives Not Reported at Fair Value on the Statement of Net Assets

Objectives and Descriptions of Derivative Transactions

The Authority administers a first-time homebuyer program (the "FirstHome Program") in order to provide low cost and low interest loans to persons and families in the State of Iowa looking to purchase their first home. The interest rate the Authority sets for the loans is directly tied to the Authority's cost of funds. Because of this direct impact, the pricing of the Authority's bonds is a key consideration in the administration of the FirstHome Program.

Because of its desire to provide the lowest possible mortgage rates to participants in the FirstHome Program, the Authority has entered into an agreement (the "Agreement") with UBS AG ("UBS AG") as counterparty. Under the Agreement, the Authority may, from time to time, enter into derivative transactions in connection with particular issues of bonds. Depending on market conditions, a variable rate bond issue and a related interest rate swap may help the Authority achieve the lowest possible full spread rates. The Authority may also issue variable rate taxable debt from time to time and enter into interest rate cap or corridor transactions under the Agreement. As of June 30, 2003, the Authority has entered into four transactions under the Agreement.

In September of 2002, in connection with the issuance of its 2002 Series F, 2002 Series G, 2002 Series H and 2002 Series I bond issue, the Authority entered into its first swap transaction under the Agreement. The 2002 Series I Bonds were issued as variable rate demand obligations ("VRDOs") initially set to bear interest at a weekly rate, and an interest rate swap (the "2002 Series I Transaction") was executed under the Agreement. Additional details about the 2002 Series I Transaction are set forth below.

Because of historically low conventional mortgage rates, the Authority executed an interest rate swap (the "2003 Series F Transaction" and, together with the 2003 Series I Transaction, the "Swap Transactions") in connection with the issuance of its 2003 Series C, 2003 Series D, 2003 Series E, 2003 Series F and 2003 Series G bond issue. The 2003 Series F Bonds were issued as VRDOs initially set to bear interest at a weekly rate. Because the Authority does not, at this time, want to have unhedged variable rate debt outstanding, it entered into the 2003 Series F Transaction with UBS AG. Additional details about the Agreement and the 2003 Series F Transaction are set forth below.

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In addition, in connection with its 2003 Series B Bonds, the Authority entered into an interest rate corridor transaction under the Agreement (the “2003 Series B Corridor”). The 2003 Series B Bonds were issued in the amount of \$10,000,000 as taxable variable rate bonds, with interest based on a spread to three-month LIBOR. To reduce its variable rate exposure with respect to the 2003 Series B Bonds, the Authority executed the 2003 Series B Corridor, under which the Authority purchased a cap at the strike rate of 6.00% (based on three-month LIBOR) and sold a cap to UBS at a rate of 11.00% (which matched the embedded maximum rate on the related bonds). The 2003 Series B Corridor has a 10 year amortizing term, which matches the expected life of the related bonds (at 100% PSA the 2003 Series B Bonds will be redeemed by the 10 year point). Prepayments of mortgage loans are commonly projected in accordance with a prepayment standard or model. The Standard Prepayment Model assumes an increasingly larger percentage of the mortgage loans prepaying each month for the first 30 months of the mortgages’ lives and thereafter assumes a constant prepayment rate of 6% per annum of the unpaid principal balance over the remaining life of each of the mortgage loans. Prepayment speeds are projected as percentages of the Standard Prepayment Model and are referred to as the Prepayment Speed Assumption (“PSA”).

The Authority also entered into a corridor transaction under the Agreement (the “2003 Series G Corridor”) in connection with its issuance of \$10,000,000 of 2003 Series G Bonds, which are taxable variable rate bonds also based on three-month LIBOR. The Authority structured the 2003 Series G Corridor with a strike rate of 5.00%, and sold a cap to UBS at a rate of 10.00% (which matched the embedded maximum rate on the related bonds). The term of the 2003 Series G Corridor is 10 years and the notional amount is also amortized. The Authority expects that approximately \$1.3 million of the associated bonds will still be outstanding when the 2003 Series G Corridor expires. Thus, the Authority will have some variable rate risk based on the amount of 2003 Series G Bonds that are outstanding when the 2003 Series G Corridor expires.

The Swap Transactions, the 2003 Series B Corridor and the 2003 Series G Corridor are sometimes referred to collectively as the “Transactions.”

Terms and Fair Value of Derivative Transactions

The tables below contain information on the terms and net fair values (as of June 30, 2003) of the Authority’s swap and corridor transactions. The notional amounts of the swap and corridor transactions were structured to match the principal amount of the related bonds, and the notional amounts will amortize according to a schedule that was developed to match the expected amortization of the associated debt.

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Swap Table

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	June 30, 2003 Fair Values	Termination Date	Counterparty Credit Rating
2002 Series I	\$11,250,000	10/30/02	3.653%	BMA* + 0.10%	(\$414,307)	07/01/32	“AA+/A-1+” / “Aa2/P-1”
2003 Series F	\$20,000,000	06/25/03	3.615%	BMA + 0.10% through 07/01/05, then 65% of LIBOR + 0.23%	(\$299,278)	01/01/33	“AA+/A-1+” / “Aa2/P-1”

* The Bond Market Association Municipal Swap Index, produced by Municipal Market Data(MMD), is a 7 day high grade market index comprised of tax-exempt VRDOs from MMD’s extensive database.

Corridor Table

Associated Bond Issue	Notional Amounts	Effective Date	Cap/Strike Rate Purchased	Cap/Strike Rate Sold	June 30, 2003 Fair Values	Termination Date	Counterparty Credit Rating
2003 Series B	\$10,000,000	03/19/03	6.00%	11.00%	\$118,295	07/01/12	“AA+/A-1+” / “Aa2/P-1”
2003 Series G	\$10,000,000	06/25/03	5.00%	10.00%	\$238,742	07/01/13	“AA+/A-1+” / “Aa2/P-1”

The fair values for the swap transactions set forth above include the value of options purchased by the Authority from UBS AG. Additional details on each of the swap transactions are set forth below under the discussion of risks.

Risks Associated with Swap Transactions; Authority’s Response Plan

Counterparty Risk. The Authority decided to enter into the Agreement and Transactions with UBS AG because of the strong credit rating of UBS AG (rated “AA+/A-1+” by Standard & Poor’s and “Aa2/P-1” by Moody’s as of June 30, 2003). In addition, to further protect against counterparty risk, certain provisions have been included in the Agreement.

The Credit Support Annex included as part of the Agreement details events that will prompt posting of collateral by a party, as well as the appropriate forms and levels of such collateral. Eligible Collateral includes cash and U.S. Treasury Securities. If the obligations of UBS AG or the single family bonds of the Authority stay at or above “A+” and “A1” (by Standard & Poor’s and Moody’s, respectively), the

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Collateral Threshold is set at \$5,000,000. This means that, assuming current ratings of UBS AG and the Authority's single family bonds remain in place, neither party will have to post collateral unless and until one party's exposure to the other party based on the termination value of all transactions under the Agreement exceeds \$5,000,000.

Termination Risk. Termination risk is the risk that the swaps could be terminated as a result of any of several events, which may include a ratings downgrade of the Authority's single family mortgage bonds or of UBS AG, covenant violation by either party, bankruptcy of either party, swap payment default by either party, and default events as defined in the Authority's single family bond resolution. One specific termination event under the Agreement occurs if the single family obligations of the Authority or the long-term unsecured debt of UBS AG fall below certain ratings thresholds (at or below "A-" by S&P or "A3" by Moody's). In the event of an early termination that results in a significant termination payment, the Authority will analyze the benefits of a replacement swap transaction, in which a new counterparty would pay an amount to the Authority up-front, to offset the termination payment.

Rollover Risk. Rollover risk is the risk that the term of a particular swap contract is not coterminous with the related bonds. To avoid rollover risk, the Authority structured the Swap Transactions such that that maturity of the swaps match the maturity of the related bonds.

Basis Risk. Basis risk refers to a mismatch between the interest rate received from the swap counterparty and the interest rate actually owed on the Authority's bonds. Specifically, the Authority's basis risk is that the variable interest payments received from UBS AG will be less than the actual variable interest payments owed on the Authority's VRDOs. The mismatch between the Authority's actual bond rate and the swap rate is the Authority's basis risk.

2002 Series I Transaction

Under the 2002 Series I Transaction, the Authority pays a fixed rate to UBS AG and in return receives a floating variable rate based on the BMA Municipal Swap Index. To minimize this risk (and to account for the anticipated trading differential between the BMA Municipal Swap Index and the Authority's VRDOs), the Authority structured the 2002 Series I Transaction so UBS AG pays the BMA Index plus 10 basis points.

2003 Series F Transaction

Under the 2003 Series F Transaction, the Authority pays a fixed rate to UBS AG and in return receives a floating variable rate based on the BMA Municipal Swap Index for the first two years (plus 10 basis points), then based on a percentage (65%) of LIBOR thereafter (plus 23 basis points). To minimize basis risk and to account for the expected trading differential between the Authority's VRDOs and BMA (or 65% of LIBOR plus 13 basis points), the 2003 Series F Transaction adds 10 basis points to BMA for the first two years and 10 basis points to the LIBOR formula thereafter (resulting in BMA plus 10 and then 65% of LIBOR plus 23).

Tax Risk. All issuers who issue tax-exempt variable rate debt inherently accept risk stemming from changes in marginal income tax rates. Decreases in marginal income tax rates for individuals and corporations could result in tax-exempt variable rates rising faster than taxable variable rates. This is a

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result of the tax code's impact on the trading value of tax-exempt bonds. This risk is also known as "tax event" risk, a form of basis risk under swap contracts.

2002 Series I Transaction

The Authority eliminated tax event risk under the 2002 Series I Transaction by utilizing a BMA swap, instead of a percentage of LIBOR swap. In addition, the Agreement does not contain any tax event triggers that switch the index from BMA to a LIBOR-based index.

2003 Series F Transaction

Given the historical or near-historical lows of conventional mortgage rates at the time the 2003 Series F Transaction was structured, and due to the Authority's desire to achieve a competitive full spread lending rate for the FirstHome Program, a decision was made to accept tax risk on the 2003 Series F Transaction.

Amortization Risk. Amortization risk represents the potential cost to the Authority of servicing debt or honoring swap payments resulting from a mismatch between the amount of bonds outstanding and the notional amount of swap outstanding. Amortization risk occurs to the extent bonds and swap notional amounts become mismatched over the life of the transaction. This could occur to the extent that the Authority redeems bonds in advance of the swap notional amount schedule, causing an unhedged swap position (this is acceleration risk, likely due to high prepayment speeds, where swap payments are then owed on a notional amount in excess of the related bonds outstanding). Conversely, the Authority could be faced with some unhedged variable rate bonds to the extent that the expected cash flow to repay bonds does not materialize in accordance with a relatively faster amortizing swap notional schedule (this is extension risk, likely due to very slow prepayment speeds, where interest payments will be owed on the variable rate bonds with a lesser or no corresponding amount of payments coming to the Authority under the swap agreement). Amortization mismatches could potentially force the Authority to terminate a portion of the swaps prior to maturity under unfavorable market conditions.

2002 Series I Transaction

To reduce acceleration risk, the Authority structured the related bonds with a planned amortization schedule, with prepayments in excess of the planned amount going to call other bonds of the related issue. In addition, the Authority may use excess prepayments to call bonds of other issues under the general resolution, to ensure that this acceleration risk can be adequately managed. Finally, the Authority purchased an optional par call after 10 years as part of the 2002 Series I Transaction, which enhances the ability to manage this form of amortization risk.

With respect to extension risk, the Authority structured the bonds relating to the 2002 Series I Transaction and the accompanying planned amortization schedule at a conservative level (30% PSA). In addition, the Authority has the ability to use prepayments from other series of bonds to cross call into this issue (subject to the particular series resolution permitting such cross calling) to keep the bond amortization on the planned schedule.

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2003 Series F Transaction

To reduce acceleration risk, the Authority structured the notional amounts of the swap based on 50% PSA. In deciding on this level of amortization for the swap notional amounts, the Authority balanced acceleration risk against extension risk, as a structure based on a higher prepayment speed than that which actually occurs will result in extension risk. If prepayments come in at a level above 50% PSA, the Authority can use these prepayments to call other bonds of this issue first, to assist in the management of acceleration risk. Finally, the Authority purchased optional par calls as part of the 2003 Series F Transaction, which enhances the ability to manage this form of amortization risk.

With respect to the extension risk described above, the Authority structured the swap amortization at 50% PSA. In addition, the Authority has the ability to use prepayments from other series of bonds to cross call into this issue (subject to the particular series resolution permitting such cross calling) to keep the bond amortization on the planned schedule.

Swap Payments and Associated Debt

Variable rate bond interest payments and net swap payments will vary from time to time as interest rates change. Using rates in effect as of June 30, 2003, and assuming the rates on the Authority's VRDOs remained at the June 30, 2003 levels through maturity, the debt service requirements (for the 2002 Series I Bonds and the 2003 Series F Bonds) and net swap payments are as follows:

Fiscal Year Ending June 30	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Net Swap Payments	Total
2004	\$20,000	\$311,476	\$812,944	\$1,144,420
2005	\$345,000	\$310,982	\$808,155	\$1,464,137
2006	\$750,000	\$303,442	\$800,411	\$1,853,853
2007	\$915,000	\$294,468	\$788,749	\$1,998,218
2008	\$900,000	\$285,418	\$765,006	\$1,950,424
2009-2013	\$3,885,000	\$1,306,698	\$3,509,423	\$8,701,122
2014-2018	\$5,320,000	\$1,132,012	\$3,051,098	\$7,318,109
2019-2023	\$5,320,000	\$956,005	\$2,584,392	\$8,860,397
2024-2028	\$7,690,000	\$585,267	\$1,582,921	\$9,858,188
2029-2033	\$8,290,000	\$212,299	\$574,197	\$9,076,495
Total	\$31,250,000	\$5,698,068	\$15,277,296	\$52,225,363

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(6) Retirement System

The Authority contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117. Details of the plan are provided on a system-wide basis. The Authority's portion is not separately determinable. The unfunded actuarial accrued liability of the plan at June 30, 2002 (latest information available) was \$1,225.0 million.

Plan members are required to contribute 3.70% of their annual covered salary, and the Authority is required to contribute 5.75% of annual covered salaries. Contribution requirements are established by State statute. The Authority's contributions to IPERS for the years ended June 30, 2003 and 2002, were \$220,070 and \$188,409, respectively, equal to the required contribution for each year.

(7) Commitments and Contingencies

General Fund

The Authority was obligated under two separate noncancelable operating leases for office space during the fiscal year ending June 30, 2003. The first lease was for a two-year term ending June 30, 2003 which was not renewed due to a consolidation of staff into one location. The ongoing lease is for a term of 10 years through September 2006, in which the future minimum rental payments are \$137,929 for each of the fiscal years 2004 through 2006 and \$41,718 in fiscal 2007. The future minimum rental payments include only base rent. The Authority is obligated to pay its portion of the operating expenses associated with the buildings for each of the leases. Total rental expense, including operating expenses, was \$249,406 and \$271,234, for the years ended June 30, 2003 and 2002, respectively.

The Authority committed a total of \$12,945,000 of its General Fund net assets to the State's Department of Economic Development (DED) in fiscal years 1998, 1999, 2000, 2001, 2002, and 2003 for the Local Housing Assistance Program (LHAP). As of June 30, 2003, \$11,208,802 has been disbursed to DED and \$1,736,198 of the Authority's General Fund net assets remain committed to DED. The Authority has also committed \$415,000 of its General Fund net assets to DED for its homeless assistance program for fiscal year 2003. As of June 30, 2003, \$207,500 has been disbursed to DED for homeless assistance. The remaining \$207,500 was disbursed to DED in August 2003.

The Authority; DED, through its Iowa Main Street Program; and the Federal Home Loan Bank of Des Moines have created the Iowa Main Street Loan Program to provide loans for housing and economic development in participating Iowa Main Street Program communities. As of June 30, 2003, the Authority has disbursed \$947,937 to provide loans under the program and the Authority has committed \$433,499 to fund additional loans. In addition, the Authority has committed \$400,000 of its General Fund net assets for a loan loss reserve.

The Authority has committed \$400,000 of its General Fund net assets under the Homeless Shelter Weatherization Program. Under the program, DED, energy companies and the Authority are working to provide energy efficiency assessments and improvements for homeless shelters. No disbursements have been made under the program as of June 30, 2003.

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(7) Commitments and Contingencies

General Fund, Continued

The Authority and Fannie Mae have created a pool of available funds to provide low-cost construction loans for developers of single family homes. As of June 30, 2003, the General Fund had commitments to fund \$1,650,000 in loans. In addition, the Authority committed \$450,000 of its General Fund net assets for a loan loss reserve and subsidizing the interest rate on certain eligible loans. As of June 30, 2003, the Authority has disbursed \$375,763 to finance the construction of five homes. The Authority entered into a Loan and Security Agreement with Fannie Mae on October 19, 2001 in conjunction with the partnership. The Authority may borrow up to \$6 million to cover certain costs and expenses incurred by developers in connection with eligible single family or multi-family residential construction or rehabilitation projects. Draws under the credit facility are a general obligation of the Authority. As of June 30, 2003, \$315,000 has been drawn from the Fannie Mae Credit Facility to finance single family homes, and \$1,720,000 has been drawn from the Fannie Mae Credit Facility to finance a short term multifamily construction loan. In addition, the Authority has pledged \$2,000,000 par value Fannie Mae Notes, 5.625%, maturing January 5, 2004, held under the General Fund, as collateral for the credit facility.

The Authority pledged \$121,000 of its General Fund net assets for the Mental Illness Special Services Program of the Iowa Department of Human Services for a one-year period beginning October 1, 2001 to aid in the development of housing for persons with mental illness. All of the \$121,000 has been disbursed as of June 30, 2003.

In August 1999, the Authority was awarded a \$600,000 Rural Housing and Economic Development Grant from HUD to fund housing and economic development in rural areas. The grant agreement with HUD was finalized in July 2000, and funds have subsequently been committed to specific projects. The Authority committed \$200,000 of its General Fund net assets for this program as a state match. As of June 30, 2003, \$334,839 in grants have been received, and \$446,451 has been disbursed for Rural Home Building Initiative Program purposes, leaving \$88,387 of the General Fund net assets committed for this program.

The Authority has committed \$239,806 of its General Fund net assets as matching funds for the Rural Community Development Initiative grant from the United States Department of Agriculture – Rural Development. The grant agreement is effective January 29, 2003 and amount awarded is \$364,806. The Authority is working with a nonprofit organization who is matching the remaining \$125,000, to enhance the capacity of recipients to develop affordable assisted living and affordable housing for persons with disabilities. None of the commitment has been disbursed as of June 30, 2003.

The Authority was awarded a \$1,370,000 Housing Opportunities for Persons with AIDS (HOPWA) grant from HUD to fund six nonprofit housing agencies and AIDS service organizations in Iowa. The Authority committed \$120,000 of its General Fund net assets for this program. As of June 30, 2003, \$232,369 in grants have been received and \$28,073 has been disbursed for HOPWA purposes, leaving \$91,927 of the General Fund net assets committed for this program.

In addition to the above, \$2,146,997 of the General Fund net assets are committed to specific projects or for specific purposes under the Authority's Housing Assistance Fund Program funding rounds as of June 30, 2003.

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(7) Commitments and Contingencies

Clean Water Program Funds

The Authority has signed loan agreements under the Iowa State Revolving Fund Revenue Bonds, Series 2001, Series 2003, and the Equity Fund for loans to municipalities, under which \$10,450,054, \$7,190,680 and \$20,145,909, respectively, have not been disbursed as of June 30, 2003.

Drinking Water Program Funds

The Authority has signed loan agreements under the Iowa State Revolving Fund Revenue Bonds, Series 2001, Series 2003, and the Equity Fund for loans to water systems, under which \$2,939,976, \$27,564,501, and \$0, respectively, have not been disbursed as of June 30, 2003.

Housing Assistance Program Funds

In connection with the issuance of Multi Family Housing Refunding Revenue Bonds, 1995 Series A, on September 29, 1995, and the related defeasance of Multi Family Bonds (FHA Insured Mortgage Loans), Series C (1982), the Authority entered into a refunding agreement with HUD providing for payments to the Authority to be used to assist very low income people in obtaining affordable housing. The payments, estimated to be \$100,000 per year over an eight-year period, relate to the Authority's share of HUD's subsidy savings on housing assistance payment contracts for certain multi family housing projects financed with proceeds of the defeased bonds. Amounts received but not yet disbursed by the Authority are classified as deferred grants and aid.

The Authority has committed \$4,200,000 of the former Iowa Housing Corporation assets and \$1,800,000 of its General Fund net assets for the Multi Family Preservation Loan Program (the Program) under the 2002 Housing Assistance Program Funds budgeting process. In addition, under the 2001 Housing Assistance Program Funds budgeting process, the Authority committed \$200,000 for grants and \$100,000 for a reserve. The Program seeks to preserve affordable rental units at risk of being lost and for which reasonable financing is not available. The Authority funded seven Multifamily Preservation projects during fiscal 2003. Five loans totaling \$4,372,580 and a grant of \$200,000 were disbursed from former Iowa Housing Corporation monies during the fiscal year. Two additional projects totaling \$1,141,002 were financed from General Fund monies and are located in the General Fund Housing Assistance Fund. The Authority is also the servicer for the Multifamily Preservation loans, collecting the monthly escrow of property taxes, property insurance, FHA mortgage insurance, and replacement reserves. At June 30, 2003 the Authority held \$156,033 in escrow deposits for the seven Multifamily Preservation projects.

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2003 and 2002

During the year ended June 30, 2003, the Authority's Board approved resolutions for three future Program projects.

(1) A January 8, 2003, Board resolution authorized a first mortgage loan not to exceed \$1,200,000 to Seneca Place Apartments in Storm Lake.

(2) A February 5, 2003, Board resolution authorized a first mortgage loan not to exceed \$975,000 to H&K Properties, Inc serving persons with disabilities and elderly person in Ottumwa and Bloomfield. However, the commitment letter between the Authority and Community Housing Initiatives, Inc. (CHI) has expired on this project. CHI, Inc is no longer working with the Authority as the prospective borrower. An August 6, 2003, the Board resolution authorized one or more first mortgage loans in an amount not to exceed \$675,000. The Authority is now working with Area XV Multi-County Housing Agency and Ahead, Inc as prospective borrowers.

(3) A March 5, 2003, the Board resolution authorized a first mortgage loan not to exceed \$500,000 to Quail Run Apartments in Perry.

As of June 30, 2003, the Authority had outstanding commitments under its various Housing Assistance Program Funds for specific housing assistance projects or individuals totaling \$459,292 relating to the Authority's Housing Assistance Fund Program funding rounds and its Down Payment/Closing Cost Grant Program

(8) Subsequent Events

Assets of the former Iowa Housing Corporation were transferred to the Housing Trust Fund, established during the 2003 legislative session, on July 1, 2003. The assets included a cash balance of \$90,648, former Iowa Housing Corporation loans of \$3,286,287, the Authority's Program loans totaling \$4,360,961, and miscellaneous receivables of \$650,841. The remaining former Iowa Housing Corporation contingent liabilities, if realized, will be funded by the assets transferred to the Housing Trust Fund. Contingent liabilities of the former Iowa Housing Corporation were approximately \$2,488,690, as of June 30, 2003.